EXHIBIT 5

AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

**Telephone and Data Systems, Inc.**
**Consolidated Statement of Operations**

| Year Ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| **(Dollars and shares in thousands, except per share amounts)** | | | |
| **Operating revenues** | | | |
| Service | $ 4,328,654 | $ 4,443,491 | $ 4,952,603 |
| Equipment and product sales | 680,784 | 457,745 | 392,674 |
| Total operating revenues | 5,009,438 | 4,901,236 | 5,345,277 |
| **Operating expenses** | | | |
| Cost of services (excluding Depreciation, amortization and accretion reported below) | 1,164,658 | 1,118,183 | 1,274,625 |
| Cost of equipment and products | 1,346,811 | 1,107,133 | 997,945 |
| Selling, general and administrative | 1,865,807 | 1,947,778 | 2,033,901 |
| Depreciation, amortization and accretion | 836,532 | 1,018,077 | 813,626 |
| Loss on impairment of assets | 87,802 | - | 515 |
| (Gain) loss on asset disposals, net | 26,531 | 30,841 | 19,741 |
| (Gain) loss on sale of business and other exit costs, net | (15,846) | (300,656) | 21,061 |
| (Gain) loss on license sales and exchanges | (112,993) | (255,479) | - |
| Total operating expenses | 5,199,302 | 4,665,877 | 5,161,414 |
| **Operating income (loss)** | (189,864) | 235,359 | 183,863 |
| **Investment and other income (expense)** | | | |
| Equity in earnings of unconsolidated entities | 131,965 | 132,714 | 92,867 |
| Interest and dividend income | 16,957 | 9,092 | 9,248 |
| Gain (loss) on investments | - | 14,547 | (3,718) |
| Interest expense | (111,397) | (98,811) | (86,745) |
| Other, net | 115 | (37) | 720 |
| Total investment and other income (expense) | 37,640 | 57,505 | 12,372 |
| **Income (loss) before income taxes** | (152,224) | 292,864 | 196,235 |
| Income tax expense (benefit) | (4,932) | 126,043 | 73,582 |
| **Net income (loss)** | (147,292) | 166,821 | 122,653 |
| Less: Net income (loss) attributable to noncontrolling interests, net of tax | (10,937) | 24,894 | 40,792 |
| **Net income (loss) attributable to TDS shareholders** | (136,355) | 141,927 | 81,861 |
| TDS Preferred dividend requirement | (49) | (49) | (50) |
| **Net income (loss) available to common shareholders** | $ (136,404) | $ 141,878 | $ 81,811 |
| **Basic weighted average shares outstanding** | 108,485 | 108,490 | 108,671 |
| **Basic earnings (loss) per share attributable to TDS shareholders** | $ (1.26) | $ 1.31 | $ 0.75 |
| **Diluted weighted average shares outstanding** | 108,485 | 109,132 | 108,937 |
| **Diluted earnings (loss) per share attributable to TDS shareholders** | $ (1.26) | $ 1.29 | $ 0.75 |
| **Dividends per share to TDS shareholders** | $ 0.54 | $ 0.51 | $ 0.49 |

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

**Telephone and Data Systems, Inc.**
**Consolidated Statement of Comprehensive Income (Loss)**

| **Year Ended December 31,** | **2014** | **2013** | **2012** |
|---|---|---|---|
| **(Dollars in thousands)** | | | |
| **Net income (loss)** | $ (147,292) | $ 166,821 | $ 122,653 |
| **Net change in accumulated other comprehensive income** | | | |
| Change in net unrealized gain on equity investments | 341 | 51 | 49 |
| Change in foreign currency translation adjustment | 48 | (34) | 4 |
| Change related to retirement plan | | | |
| Amounts included in net periodic benefit cost for the period | | | |
| Net actuarial gains (losses) | 10,990 | 13,345 | 90 |
| Prior service cost | 2,057 | - | - |
| Amortization of prior service cost | (3,644) | (3,605) | (3,735) |
| Amortization of unrecognized net loss | 1,287 | 2,452 | 2,517 |
| | 10,690 | 12,192 | (1,128) |
| Change in deferred income taxes | (4,058) | (4,646) | 1,797 |
| Change related to retirement plan, net of tax | 6,632 | 7,546 | 669 |
| Net change in accumulated other comprehensive income | 7,021 | 7,563 | 722 |
| **Comprehensive income (loss)** | (140,271) | 174,384 | 123,375 |
| Less: Comprehensive income attributable to noncontrolling interest | 10,937 | 24,894 | 40,792 |
| **Comprehensive income (loss) attributable to TDS shareholders** | $ (151,208) | $ 149,490 | $ 82,583 |

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

**Telephone and Data Systems, Inc.**
**Consolidated Statement of Cash Flows**

| **Year Ended December 31,** | **2014** | **2013** | **2012** |
|---|---|---|---|
| **(Dollars in thousands)** | | | |
| **Cash flows from operating activities** | | | |
| Net income (loss) | $ (147,292) | $ 166,821 | $ 122,653 |
| Add (deduct) adjustments to reconcile net income to net cash flows from operating activities | | | |
| Depreciation, amortization and accretion | 836,532 | 1,018,077 | 813,626 |
| Bad debts expense | 107,861 | 105,629 | 74,695 |
| Stock-based compensation expense | 35,793 | 30,338 | 41,871 |
| Deferred income taxes, net | 71,713 | (67,150) | 58,785 |
| Equity in earnings of unconsolidated entities | (131,965) | (132,714) | (92,867) |
| Distributions from unconsolidated entities | 112,349 | 127,929 | 84,884 |
| Loss on impairment of assets | 87,802 | - | 515 |
| (Gain) loss on asset disposals, net | 26,531 | 30,841 | 19,741 |
| (Gain) loss on sale of business and other exit costs, net | (15,846) | (300,656) | 21,061 |
| (Gain) loss on license sales and exchanges | (112,993) | (255,479) | - |
| (Gain) loss on investments | - | (14,547) | 3,718 |
| Noncash interest expense | 1,642 | 2,463 | (572) |
| Other operating activities | (641) | 612 | 1,393 |
| Changes in assets and liabilities from operations | | | |
| Accounts receivable | 17,629 | (293,729) | (81,107) |
| Equipment installment plans receivable | (188,829) | (591) | - |
| Inventory | (29,149) | (83,536) | (29,917) |
| Accounts payable | (117,264) | 86,028 | (12,332) |
| Customer deposits and deferred revenues | 33,952 | 66,460 | 32,981 |
| Accrued taxes | (122,921) | 17,388 | 77,458 |
| Accrued interest | 1,277 | 380 | (891) |
| Other assets and liabilities | (71,369) | (9,954) | (30,523) |
| | 394,812 | 494,610 | 1,105,172 |
| **Cash flows from investing activities** | | | |
| Cash used for additions to property, plant and equipment | (799,496) | (883,797) | (995,517) |
| Cash paid for acquisitions and licenses | (295,253) | (314,570) | (163,382) |
| Cash received from divestitures | 187,645 | 811,120 | 50,182 |
| Cash paid for investments | - | - | (120,000) |
| Cash received for investments | 50,000 | 115,000 | 243,444 |
| Federal Communications Commission deposit | (60,000) | - | - |
| Other investing activities | 7,360 | 11,594 | (12,796) |
| | (909,744) | (260,653) | (998,069) |
| **Cash flows from financing activities** | | | |
| Issuance of long-term debt | 275,000 | 37 | 195,358 |
| Repayment of borrowing under revolving credit facility | (150,000) | - | - |
| Borrowing under revolving credit facility | 150,000 | - | - |
| TDS Common Shares reissued for benefit plans, net of tax payments | (2,019) | 9,654 | (1,119) |
| U.S. Cellular Common Shares reissued for benefit plans, net of tax payments | 830 | 5,784 | (2,205) |
| Repurchase of TDS Common Shares | (39,096) | (9,692) | (20,026) |
| Repurchase of U.S. Cellular Common Shares | (18,943) | (18,544) | (20,045) |
| Dividends paid to TDS shareholders | (58,040) | (55,293) | (53,165) |
| U.S. Cellular dividends paid to noncontrolling public shareholders | - | (75,235) | - |
| Payment of debt issuance costs | (10,215) | (23) | (8,242) |
| Distributions to noncontrolling interests | (627) | (3,766) | (20,856) |
| Payments to acquire additional interest in subsidiaries | - | (4,505) | (3,167) |
| Other financing activities | 9,929 | 7,159 | 3,570 |
| | 156,819 | (144,424) | 70,103 |
| **Net increase (decrease) in cash and cash equivalents** | (358,113) | 89,533 | 177,206 |
| **Cash and cash equivalents** | | | |
| Beginning of period | 830,014 | 740,481 | 563,275 |
| End of period | $ 471,901 | $ 830,014 | $ 740,481 |

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

**Telephone and Data Systems, Inc.**
**Consolidated Balance Sheet — Assets**

| December 31, | 2014 | 2013 |
|---|---|---|
| **(Dollars in thousands)** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 471,901 | $ 830,014 |
| Short-term investments | - | 50,104 |
| Accounts receivable | | |
| Due from customers and agents, less allowances of $41,431 and $63,690, respectively | 548,537 | 551,611 |
| Other, less allowances of $1,141 and $1,914, respectively | 135,144 | 179,503 |
| Inventory, net | 273,707 | 244,560 |
| Net deferred income tax asset | 107,686 | 106,077 |
| Prepaid expenses | 86,506 | 87,920 |
| Income taxes receivable | 113,708 | 2,397 |
| Other current assets | 29,766 | 35,151 |
| | 1,766,955 | 2,087,337 |
| | | |
| **Assets held for sale** | 103,343 | 16,027 |
| | | |
| **Investments** | | |
| Licenses | 1,453,574 | 1,423,779 |
| Goodwill | 771,352 | 836,843 |
| Franchise rights | 244,300 | 123,668 |
| Other intangible assets, net of accumulated amortization of $133,823 and $112,752, respectively | 64,499 | 71,454 |
| Investments in unconsolidated entities | 321,729 | 301,772 |
| Other investments | 508 | 641 |
| | 2,855,962 | 2,758,157 |
| **Property, plant and equipment** | | |
| In service and under construction | 11,194,044 | 11,239,804 |
| Less: Accumulated depreciation and amortization | 7,347,919 | 7,361,660 |
| | 3,846,125 | 3,878,144 |
| | | |
| **Other assets and deferred charges** | 334,554 | 164,482 |
| | | |
| **Total assets** | $ 8,906,939 | $ 8,904,147 |

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

**Telephone and Data Systems, Inc.**
**Consolidated Balance Sheet — Liabilities and Equity**

| December 31, | 2014 | 2013 |
|---|---|---|
| **(Dollars and shares in thousands)** | | |
| **Current liabilities** | | |
| Current portion of long-term debt | $ 808 | $ 1,646 |
| Accounts payable | 387,125 | 496,069 |
| Customer deposits and deferred revenues | 324,318 | 289,445 |
| Accrued interest | 7,919 | 6,673 |
| Accrued taxes | 46,734 | 70,518 |
| Accrued compensation | 114,549 | 115,031 |
| Other current liabilities | 181,803 | 212,374 |
| | 1,063,256 | 1,191,756 |
| **Liabilities held for sale** | 21,643 | - |
| **Deferred liabilities and credits** | | |
| Net deferred income tax liability | 941,519 | 862,975 |
| Other deferred liabilities and credits | 430,774 | 458,709 |
| **Long-term debt** | 1,993,586 | 1,720,074 |
| **Commitments and contingencies** | | |
| **Noncontrolling interests with redemption features** | 1,150 | 536 |
| **Equity** | | |
| TDS shareholders' equity | | |
| Series A Common and Common Shares | | |
| Authorized 290,000 shares (25,000 Series A Common and 265,000 Common Shares) | | |
| Issued 132,749 shares (7,179 Series A Common and 125,570 Common Shares) and 132,711 shares (7,166 Series A Common, and 125,545 Common Shares), respectively | | |
| Outstanding 107,899 shares (7,179 Series A Common and 100,720 Common Shares) and 108,757 shares (7,166 Series A Common, and 101,591 Common Shares), respectively | | |
| Par Value ($.01 per share) ($72 Series A Common and $1,255 Common Shares) | 1,327 | 1,327 |
| Capital in excess of par value | 2,336,511 | 2,308,807 |
| Treasury shares at cost: | | |
| 24,850 and 23,954 Common Shares, respectively | (748,199) | (721,354) |
| Accumulated other comprehensive income (loss) | 6,452 | (569) |
| Retained earnings | 2,330,187 | 2,529,626 |
| Total TDS shareholders' equity | 3,926,278 | 4,117,837 |
| Preferred shares | 824 | 824 |
| Noncontrolling interests | 527,909 | 551,436 |
| Total equity | 4,455,011 | 4,670,097 |
| **Total liabilities and equity** | $ 8,906,939 | $ 8,904,147 |

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

**Telephone and Data Systems, Inc.**
**Consolidated Statement of Changes in Equity**

| (Dollars in thousands) | TDS Shareholders: Series A Common and Common Shares | Capital in Excess of Par Value | Treasury Common Shares | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total TDS Shareholders' Equity | Preferred Shares | Non controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2013** | **$ 1,327** | **$ 2,308,807** | **$ (721,354)** | **$ (569)** | **$ 2,529,626** | **$ 4,117,837** | **$ 824** | **$ 551,436** | **$ 4,670,097** |
| Add (Deduct) | | | | | | | | | |
| Net income (loss) attributable to TDS shareholders | - | - | - | - | (136,355) | (136,355) | - | - | (136,355) |
| Net income (loss) attributable to noncontrolling interests classified as equity | - | - | - | - | - | - | - | (11,614) | (11,614) |
| Net unrealized gain (loss) on equity investments | - | - | - | 341 | - | 341 | - | - | 341 |
| Change in foreign currency translation adjustment | - | - | - | 48 | - | 48 | - | - | 48 |
| Changes related to retirement plan | - | - | - | 6,632 | - | 6,632 | - | - | 6,632 |
| TDS Common and Series A Common Share dividends | - | - | - | - | (57,991) | (57,991) | - | - | (57,991) |
| TDS Preferred dividend requirement | - | - | - | - | (49) | (49) | - | - | (49) |
| Repurchase of Common Shares | - | - | (39,096) | - | - | (39,096) | - | - | (39,096) |
| Dividend reinvestment plan | - | 2,702 | 7,093 | - | - | 9,795 | - | - | 9,795 |
| Incentive and compensation plans | - | (1,580) | 5,158 | - | (5,044) | (1,466) | - | - | (1,466) |
| Adjust investment in subsidiaries for repurchases, issuances and other compensation plans | - | 12,072 | - | - | - | 12,072 | - | (11,349) | 723 |
| Stock-based compensation awards | - | 14,182 | - | - | - | 14,182 | - | - | 14,182 |
| Tax windfall (shortfall) from stock awards | - | 328 | - | - | - | 328 | - | - | 328 |
| Distributions to noncontrolling interests | - | - | - | - | - | - | - | (564) | (564) |
| **December 31, 2014** | **$ 1,327** | **$ 2,336,511** | **$ (748,199)** | **$ 6,452** | **$ 2,330,187** | **$ 3,926,278** | **$ 824** | **$ 527,909** | **$ 4,455,011** |

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

**Telephone and Data Systems, Inc.**
**Consolidated Statement of Changes in Equity**

| (Dollars in thousands) | TDS Shareholders: Series A Common and Common Shares | Capital in Excess of Par Value | Treasury Common Shares | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total TDS Shareholders' Equity | Preferred Shares | Non controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2012** | **$ 1,327** | **$ 2,304,122** | **$ (750,099)** | **$ (8,132)** | **$ 2,464,318** | **$ 4,011,536** | **$ 825** | **$ 643,966** | **$ 4,656,327** |
| Add (Deduct) | | | | | | | | | |
| Net income (loss) attributable to TDS shareholders | - | - | - | - | 141,927 | 141,927 | - | - | 141,927 |
| Net income (loss) attributable to noncontrolling interests classified as equity | - | - | - | - | - | - | - | 24,661 | 24,661 |
| Net unrealized gain (loss) on equity investments | - | - | - | 51 | - | 51 | - | - | 51 |
| Change in foreign currency translation adjustment | - | - | - | (34) | - | (34) | - | - | (34) |
| Changes related to retirement plan | - | - | - | 7,546 | - | 7,546 | - | - | 7,546 |
| TDS Common and Series A Common Share dividends | - | - | - | - | (55,244) | (55,244) | - | - | (55,244) |
| TDS Preferred dividend requirement | - | - | - | - | (49) | (49) | - | - | (49) |
| U.S. Cellular dividends paid to noncontrolling public shareholders | - | - | - | - | - | - | - | (75,235) | (75,235) |
| Repurchase of Preferred Shares | - | - | - | - | (5) | (5) | (1) | - | (6) |
| Repurchase of Common Shares | - | - | (9,692) | - | - | (9,692) | - | - | (9,692) |
| Dividend reinvestment plan | - | 1,619 | 13,647 | - | (5,966) | 9,300 | - | - | 9,300 |
| Incentive and compensation plans | - | 655 | 24,790 | - | (15,355) | 10,090 | - | - | 10,090 |
| Adjust investment in subsidiaries for repurchases, issuances and other compensation plans | - | (290) | - | - | - | (290) | - | 20 | (270) |
| Stock-based compensation awards | - | 14,430 | - | - | - | 14,430 | - | - | 14,430 |
| Tax windfall (shortfall) from stock awards | - | (1,311) | - | - | - | (1,311) | - | - | (1,311) |
| Distributions to noncontrolling interests | - | - | - | - | - | - | - | (3,576) | (3,576) |
| Adjust investment in subsidiaries for noncontrolling interest purchases | - | (10,418) | - | - | - | (10,418) | - | 5,370 | (5,048) |
| Deconsolidation of partnerships | - | - | - | - | - | - | - | (43,770) | (43,770) |
| **December 31, 2013** | **$ 1,327** | **$ 2,308,807** | **$ (721,354)** | **$ (569)** | **$ 2,529,626** | **$ 4,117,837** | **$ 824** | **$ 551,436** | **$ 4,670,097** |

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

**Telephone and Data Systems, Inc.**
**Consolidated Statement of Changes in Equity**

| (Dollars in thousands) | TDS Shareholders: Series A Common and Common Shares | Capital in Excess of Par Value | Treasury Common Shares | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total TDS Shareholders' Equity | Preferred Shares | Non controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2011** | **$ 1,326** | **$ 2,268,711** | **$ (750,921)** | **$ (8,854)** | **$ 2,451,899** | **$ 3,962,161** | **$ 830** | **$ 639,688** | **$ 4,602,679** |
| Add (Deduct) | | | | | | | | | |
| Net income (loss) attributable to TDS shareholders | - | - | - | - | 81,861 | 81,861 | - | - | 81,861 |
| Net income (loss) attributable to noncontrolling interests classified as equity | - | - | - | - | - | - | - | 40,739 | 40,739 |
| Net unrealized gain (loss) on equity investments | - | - | - | 49 | - | 49 | - | - | 49 |
| Change in foreign currency translation adjustment | - | - | - | 4 | - | 4 | - | - | 4 |
| Changes related to retirement plan | - | - | - | 669 | - | 669 | - | - | 669 |
| TDS Common and Series A Common Share dividends | - | - | - | - | (53,115) | (53,115) | - | - | (53,115) |
| TDS Preferred dividend requirement | - | - | - | - | (50) | (50) | - | - | (50) |
| Repurchase of Preferred Shares | - | - | - | - | (17) | (17) | (5) | - | (22) |
| Repurchase of Common Shares | - | - | (20,026) | - | - | (20,026) | - | - | (20,026) |
| Dividend reinvestment plan | 1 | 1,148 | 14,123 | - | (8,349) | 6,923 | - | - | 6,923 |
| Incentive and compensation plans | - | 444 | 6,725 | - | (7,911) | (742) | - | - | (742) |
| Adjust investment in subsidiaries for repurchases, issuances and other compensation plans | - | 12,572 | - | - | - | 12,572 | - | (14,924) | (2,352) |
| Stock-based compensation awards | - | 20,030 | - | - | - | 20,030 | - | - | 20,030 |
| Tax windfall (shortfall) from stock awards | - | (3,179) | - | - | - | (3,179) | - | - | (3,179) |
| Distributions to noncontrolling interests | - | - | - | - | - | - | - | (20,856) | (20,856) |
| Adjust investment in subsidiaries for noncontrolling interest purchases | - | 4,396 | - | - | - | 4,396 | - | (738) | 3,658 |
| Other | - | - | - | - | - | - | - | 57 | 57 |
| **December 31, 2012** | **$ 1,327** | **$ 2,304,122** | **$ (750,099)** | **$ (8,132)** | **$ 2,464,318** | **$ 4,011,536** | **$ 825** | **$ 643,966** | **$ 4,656,327** |

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

### Nature of Operations

Telephone and Data Systems, Inc. ("TDS") is a diversified telecommunications company providing high-quality telecommunications services to approximately 4.8 million wireless customers and 1.2 million wireline and cable connections at December 31, 2014. TDS conducts all of its wireless operations through its 84%-owned subsidiary, United States Cellular Corporation ("U.S. Cellular"). TDS provides wireline services, cable services and hosted and managed services through its wholly-owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom").

TDS has the following reportable segments: U.S. Cellular and TDS Telecom's Wireline, Cable and Hosted and Managed Services ("HMS") operations. TDS' non-reportable other business activities are presented as "Corporate, Eliminations and Other". This includes the operations of TDS' majority owned printing and distribution company, Suttle-Straus, Inc. ("Suttle-Straus") and TDS' wholly owned subsidiary, Airadigm Communications, Inc. ("Airadigm"). Suttle-Straus and Airadigm's financial results were not significant to TDS' operations. All of TDS' segments operate only in the United States, except for HMS, which includes an insignificant foreign operation. See Note 18 — Business Segment Information for summary financial information on each business segment.

### Principles of Consolidation

The accounting policies of TDS 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"). Unless otherwise specified, references to accounting provisions and GAAP in these notes refer to the requirements of the FASB ASC. The consolidated financial statements include the accounts of TDS, its majority-owned subsidiaries, general partnerships in which it has a majority partnership interest and variable interest entities ("VIEs") in which TDS is the primary beneficiary. Both VIE and primary beneficiary represent terms defined by GAAP.

Intercompany accounts and transactions have been eliminated.

### Reclassifications

Certain prior year amounts have been reclassified to conform to the 2014 financial statement presentation. These reclassifications did not affect consolidated net income attributable to TDS shareholders, cash flows, assets, liabilities or equity for the years presented.

In 2014, TDS began presenting separately Equipment and product sales and Cost of equipment and products. As a result of recent HMS acquisitions, these amounts are now more significant to TDS and, accordingly, are shown as separate captions under Operating revenues and Operating expenses, respectively, on the Consolidated Statement of Operations. Amounts in 2013 and 2012 have been reclassified to conform to the 2014 presentation. The separate presentation of Equipment and product sales and Cost of equipment and products had no other impact on the TDS financial statements.

### Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (a) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and (b) the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Significant estimates are involved in accounting for goodwill and indefinite-lived intangible assets, income taxes, the loyalty reward program and equipment installment plans.

### Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments with original maturities of three months or less.

### Accounts Receivable and Allowance for Doubtful Accounts

U.S. Cellular's accounts receivable consist primarily of amounts owed by customers for wireless services and equipment sales, including sales of certain devices under equipment installment plans, by agents for sales of equipment to them and by other wireless carriers whose customers have used U.S. Cellular's wireless systems.

TDS Telecom's accounts receivable primarily consist of amounts owed by customers for services and products provided, by interexchange carriers for long-distance traffic which TDS Telecom carries on its network, and by interstate and intrastate revenue pools that distribute access charges.

The allowance for doubtful accounts is the best estimate of the amount of probable credit losses related to existing billed and unbilled accounts receivable. The allowance is estimated based on historical experience, account aging and other factors that could affect collectability. Accounts receivable balances are reviewed on either an aggregate or individual basis for collectability depending on the type of receivable. When it is probable that an account balance will not be collected, the account balance is charged against the allowance for doubtful accounts. TDS does not have any off-balance sheet credit exposure related to its customers.

The changes in the allowance for doubtful accounts during the years ended December 31, 2014, 2013 and 2012 were as follows:

| **(Dollars in thousands)** | **2014** | **2013** | **2012** |
|---|---|---|---|
| Beginning balance | $ 65,604 | $ 33,415 | $ 31,071 |
| Additions, net of recoveries | 107,861 | 105,629 | 74,695 |
| Deductions | (124,828) | (73,440) | (72,351) |
| Ending balance (1) | $ 48,637 | $ 65,604 | $ 33,415 |

(1) In 2014, this balance includes a $6.1 million allowance related to the long-term portion of unbilled equipment installment receivables.

**Inventory**

Inventory consists primarily of wireless devices stated at the lower of cost or market, with cost determined using the first-in, first-out method and market determined by replacement costs or estimated net realizable value. TDS Telecom's materials and supplies are stated at average cost.

**Goodwill**

TDS has Goodwill as a result of its acquisition of wireless, wireline, HMS, and cable companies and, under previous business combination guidance in effect prior to 2009, step acquisitions related to U.S. Cellular's repurchase of its common shares. Such Goodwill represents the excess of the total purchase price over the fair value of net assets acquired in these transactions. TDS performs its annual impairment assessment of Goodwill as of November 1 of each year.

See Note 7 — Intangible Assets for additional details related to Goodwill.

***U.S. Cellular***

For purposes of conducting its Goodwill impairment test in 2014 and 2013, U.S. Cellular identified four reporting units. The four reporting units represent four geographic groupings of operating markets, representing four geographic service areas. A discounted cash flow approach was used to value each reporting unit for purposes of the Goodwill impairment review.

***TDS Telecom***

For purposes of the 2014 annual impairment testing, TDS Telecom has identified three reporting units: Wireline, HMS and Cable. For purposes of the 2013 annual impairment testing, TDS Telecom had three reporting units: incumbent local exchange carrier ("ILEC"), HMS and Cable. During 2014, the ILEC operations were combined with the competitive local exchange carrier ("CLEC") operations to create the Wireline reporting unit. There is no Goodwill at the CLEC operations. The discounted cash flow approach and guideline public company method were used to value the Wireline and Cable reporting units for the 2014 annual impairment test. For the 2014 annual impairment test, TDS Telecom performed a qualitative assessment of the HMS reporting unit.

**Licenses**

Licenses consist of direct and incremental costs incurred in acquiring Federal Communications Commission ("FCC") licenses to provide wireless service.

TDS has determined that wireless licenses are indefinite-lived intangible assets and, therefore, not subject to amortization based on the following factors:

- Radio spectrum is not a depleting asset.

- The ability to use radio spectrum is not limited to any one technology.
- TDS and its consolidated subsidiaries are licensed to use radio spectrum through the FCC licensing process, which enables licensees to utilize specified portions of the spectrum for the provision of wireless service.
- TDS and its consolidated subsidiaries are required to renew their FCC licenses every ten years or, in some cases, every fifteen years. To date, all of TDS' license renewal applications have been granted by the FCC. Generally, license renewal applications filed by licensees otherwise in compliance with FCC regulations are routinely granted. If, however, a license renewal application is challenged either by a competing applicant for the license or by a petition to deny the renewal application, the license will be renewed if the licensee can demonstrate its entitlement to a "renewal expectancy." Licensees are entitled to such an expectancy if they can demonstrate to the FCC that they have provided "substantial service" during their license term and have "substantially complied" with FCC rules and policies. TDS believes that it is probable that its future license renewal applications will be granted.

U.S. Cellular performs its annual impairment assessment of its licenses as of November 1 of each year. For purposes of its 2014 and 2013 impairment testing of Licenses, U.S. Cellular separated its FCC licenses into eleven units of accounting based on geographic service areas. In both 2014 and 2013, seven of the units of accounting represented geographic groupings of licenses which, because they were not being utilized and, therefore, were not expected to generate cash flows from operating activities in the foreseeable future, were considered separate units of accounting for purposes of impairment testing. U.S. Cellular estimates the fair value of built licenses for purposes of impairment testing using the build-out method. The build-out method estimates the fair value of Licenses by discounting to present value the future cash flows calculated based on a hypothetical cost to build-out U.S. Cellular's network.

For units of accounting which consist of unbuilt licenses, the fair value of the unbuilt licenses is assumed to change by the same percentage, and in the same direction, that the fair value of built licenses measured using the build-out method changed during the period.

See Note 7 — Intangible Assets for additional details related to Licenses.

**Franchise rights**

TDS has Franchise rights as a result of acquisitions of cable businesses. Franchise rights are intangible assets that provide their holder with the right to operate a business in a certain geographical location as sanctioned by the franchiser, usually a government agency. TDS has determined that Franchise rights are indefinite-lived intangible assets and, therefore, not subject to amortization because TDS expects both the renewal by the granting authorities and the cash flows generated from the Franchise rights to continue indefinitely. Cable Franchise rights are generally granted for ten year periods and may be renewed for additional terms upon approval by the granting authority. TDS anticipates that future renewals of its Franchise rights will be granted.

TDS Telecom performs its annual impairment assessment of Franchise rights as of November 1 of each year. TDS Telecom tests Franchise rights for impairment at a unit of accounting level. For purposes of its impairment testing of Franchise rights, TDS Telecom identified one unit of accounting. TDS Telecom estimates the fair value of franchise rights for purposes of impairment testing using the build-out method. For the 2013 annual impairment test, TDS Telecom performed a qualitative assessment of the Franchise rights.

See Note 7 — Intangible Assets for additional details related to Franchise rights.

**Investments in Unconsolidated Entities**

For its equity method investments for which financial information is readily available, TDS records its equity in the earnings of the entity in the current period. For its equity method investments for which financial information is not readily available, TDS records its equity in the earnings of the entity on a one quarter lag basis.

**Property, Plant and Equipment**

Property, plant and equipment is stated at the original cost of construction or purchase including capitalized costs of certain taxes, payroll-related expenses, interest and estimated costs to remove the assets.

Expenditures that enhance the productive capacity of assets in service or extend their useful lives are capitalized and depreciated. Expenditures for maintenance and repairs of assets in service are charged to Cost of services and products or Selling, general and administrative expense, as applicable. Retirements and disposals of assets are recorded by removing the original cost of the asset (along with the related accumulated depreciation) from plant in service and charging it, together with net removal costs (removal costs less an applicable accrued asset retirement obligation and salvage value realized), to (Gain) loss on asset disposals, net.

TDS capitalizes certain costs of developing new information systems.

**Depreciation and amortization**

Depreciation is provided using the straight-line method over the estimated useful life of the related asset, except for certain Wireline segment assets, which use the group depreciation method. The group depreciation method develops a depreciation rate based on the average useful life of a specific group of assets, rather than each asset individually. TDS depreciates leasehold improvement assets associated with leased properties over periods ranging from one to thirty years; such periods approximate the shorter of the assets' economic lives or the specific lease terms.

Useful lives of specific assets are reviewed throughout the year to determine if changes in technology or other business changes would warrant accelerating the depreciation of those specific assets. Due to the Divestiture Transaction more fully described in Note 6 — Acquisitions, Divestitures and Exchanges, U.S. Cellular changed the useful lives of certain assets in 2013 and 2012. Other than the Divestiture Transaction, there were no other material changes to useful lives of property, plant and equipment in 2014, 2013 or 2012. TDS Telecom did not materially change the useful lives of its property, plant and equipment in 2014, 2013 or 2012. See Note 9 — Property, Plant and Equipment for additional details related to useful lives.

**Impairment of Long-lived Assets**

TDS reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the assets might be impaired.

U.S. Cellular has one asset group for purposes of assessing property, plant and equipment for impairment based on the fact that the individual operating markets are reliant on centrally operated data centers, mobile telephone switching offices and network operations center. U.S. Cellular operates a single integrated national wireless network, and the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities represent cash flows generated by this single interdependent network.

TDS Telecom has three asset groups of Wireline, Cable and HMS for purposes of assessing property, plant and equipment for impairment based on their integrated network, assets and operations. The cash flows generated by each of these groups is the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities.

**Agent Liabilities**

U.S. Cellular has relationships with agents, which are independent businesses that obtain customers for U.S. Cellular. At December 31, 2014 and 2013, U.S. Cellular had accrued $95.3 million and $121.3 million, respectively, for amounts due to agents. This amount is included in Other current liabilities in the Consolidated Balance Sheet.

**Other Assets and Deferred Charges**

Other assets and deferred charges include underwriters' and legal fees and other charges related to issuing various borrowing instruments and other long-term agreements, and are amortized over the respective term of each instrument. The amounts of deferred charges included in the Consolidated Balance Sheet at December 31, 2014 and 2013, are shown net of accumulated amortization of $58.1 million and $41.4 million, respectively. At December 31, 2014, Other assets and deferred charges includes a $60.0 million deposit made by Advantage Spectrum L.P. to the FCC to participate in Auction 97. See Note 14 — Variable Interest Entities for additional information.

**Asset Retirement Obligations**

TDS accounts for asset retirement obligations by recording the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. At the time the liability is incurred, TDS records a liability equal to the net present value of the estimated cost of the asset retirement obligation and increases the carrying amount of the related long-lived asset by an equal amount. Until the obligation is fulfilled, TDS updates its estimates relating to cash flows required and timing of settlement. TDS records the present value of the changes in the future value as an increase or decrease to the liability and the related carrying amount of the long-lived asset. The liability is accreted to future value over a period ending with the estimated settlement date of the respective asset retirement obligation. The carrying amount of the long-lived asset is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to retire the asset and the recorded liability is recognized in the Consolidated Statement of Operations.

**Treasury Shares**

Common Shares repurchased by TDS are recorded at cost as treasury shares and result in a reduction of equity. Treasury shares are reissued as part of TDS' stock-based compensation programs. When treasury shares are reissued, TDS determines the cost using the first-in, first-out cost method. The difference between the cost of the treasury shares and reissuance price is included in Capital in excess of par value or Retained earnings.

**Revenue Recognition**

Revenues related to services are recognized as services are rendered. Revenues billed in advance or in arrears of the services being provided are estimated and deferred or accrued, as appropriate.

Revenues from sales of equipment, products and accessories are recognized when title and risk of loss passes to the agent or end-user customer.

*Multiple Deliverable Arrangements*

U.S. Cellular and TDS Telecom sell multiple element service and equipment offerings. In these instances, revenues are allocated using the relative selling price method. Under this method, arrangement consideration, which consists of the amounts billed to the customer net of any cash-based discounts, is allocated to each element on the basis of its relative selling price. Revenue recognized for the delivered items is limited to the amount due from the customer that is not contingent upon the delivery of additional products or services.

*Loyalty Reward Program*

U.S. Cellular follows the deferred revenue method of accounting for its loyalty reward program. Under this method, revenue allocated to loyalty reward points is deferred. The amount allocated to the loyalty points is based on the estimated retail price of the products and services for which points may be redeemed divided by the number of loyalty points required to receive such products and services. This is calculated on a weighted average basis and requires U.S. Cellular to estimate the percentage of loyalty points that will be redeemed for each product or service.

As of December 31, 2014 and 2013, U.S. Cellular had deferred revenue related to loyalty reward points outstanding of $94.6 million and $116.2 million, respectively. These amounts are recorded in Customer deposits and deferred revenues (a current liability account) in the Consolidated Balance Sheet, as customers may redeem their reward points within the current period.

Revenue is recognized at the time of customer redemption or when such points have been depleted via an account maintenance charge. U.S. Cellular employs the proportional model to recognize revenues associated with breakage. Under the proportional model, U.S. Cellular allocates a portion of the estimated future breakage to each redemption and records revenue proportionally. U.S. Cellular periodically reviews and revises the redemption and depletion rates to estimate future breakage as appropriate based on history and related future expectations.

In the fourth quarter of 2013, U.S. Cellular issued loyalty reward points with a value of $43.5 million as a loyalty bonus in recognition of the inconvenience experienced by customers during U.S. Cellular's billing system conversion in 2013. The value of the loyalty bonus reduced Service revenues in the Consolidated Statement of Operations and increased Customer deposits and deferred revenues in the Consolidated Balance Sheet.

*Equipment Installment Plans*

U.S. Cellular equipment revenue under equipment installment plan contracts is recognized at the time the device is delivered to the end-user customer for the selling price of the device, net of any deferred imputed interest or trade-in right, if applicable. Imputed interest is reflected as a reduction to the receivable balance and recognized over the duration of the plan as a component of Interest and dividend income. See Note 3 — Equipment Installment Plans for additional information.

*Incentives*

Discounts and incentives are recognized as a reduction of Operating revenues concurrently with the associated revenue, and are allocated to the various products and services in the bundled offering based on their respective relative selling price.

U.S. Cellular issues rebates to its agents and end customers. These incentives are recognized as a reduction to revenue at the time the wireless device sale to the agent or customer occurs, respectively. The total potential rebates and incentives are reduced by U.S. Cellular's estimate of rebates that will not be redeemed by customers based on historical experience of such redemptions.

*Activation Fees*

TDS charges its end customers activation fees in connection with the sale of certain services and equipment. Activation fees charged by TDS Telecom in conjunction with a service offering are deferred and recognized over the average customer's service period. Device activation fees charged at U.S. Cellular agent locations, where U.S. Cellular does not also sell a wireless device to the customer, are deferred and recognized over the average device life. Device activation fees charged as a result of device sales at U.S. Cellular company-owned retail stores are recognized at the time the device is delivered to the customer.

*Amounts Collected from Customers and Remitted to Governmental Authorities – Gross vs. Net*

TDS records amounts collected from customers and remitted to governmental authorities net within a tax liability account if the tax is assessed upon the customer and TDS merely acts as an agent in collecting the tax on behalf of the imposing governmental authority. If the tax is assessed upon TDS, 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 $113.5 million, $131.0 million and $152.4 million for 2014, 2013 and 2012, respectively.

*Wholesale Revenues*

TDS Telecom earns Wholesale revenues in its Wireline segment as a result of its participation in revenue pools with other telephone companies for interstate revenue and for certain intrastate revenue. Such pools are funded by long distance revenue and/or access charges within state jurisdictions and by access charges in the interstate jurisdiction. Wholesale revenues earned through the various pooling processes are recorded based on estimates following the National Exchange Carrier Association's rules as approved by the FCC.

*Eligible Telecommunications Carrier ("ETC") Revenues*

Telecommunications companies may be designated by states, or in some cases by the FCC, as an ETC to receive support payments from the Universal Service Fund if they provide specified services in "high cost" areas. ETC revenues recognized in the reporting period represent the amounts which U.S. Cellular is entitled to receive for such period, as determined and approved in connection with U.S. Cellular's designation as an ETC in various states.

**Advertising Costs**

TDS expenses advertising costs as incurred. Advertising costs totaled $228.5 million, $212.8 million and $240.9 million in 2014, 2013 and 2012, respectively.

**Income Taxes**

TDS files a consolidated federal income tax return. Deferred taxes are computed using the liability method, whereby deferred tax assets are recognized for future deductible temporary differences and operating loss carryforwards, and deferred tax liabilities are recognized for future taxable temporary differences. Both deferred tax assets and liabilities are measured using the tax rates anticipated to be in effect when the temporary differences reverse. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. TDS evaluates income tax uncertainties, assesses the probability of the ultimate settlement with the applicable taxing authority and records an amount based on that assessment.

**Stock-Based Compensation**

TDS has established long-term incentive plans, dividend reinvestment plans, and a Non-Employee Director compensation plan. See Note 17 — Stock-based Compensation for additional information. The dividend reinvestment plan of TDS is not considered a compensatory plan and, therefore, recognition of compensation costs for grants made under this plan is not required. All other plans are considered compensatory plans; therefore, recognition of compensation costs for grants made under these plans is required.

TDS values its share-based payment transactions using a Black-Scholes valuation model. Stock-based compensation cost recognized during the period is based on the portion of the share-based payment awards that are ultimately expected to vest. Accordingly, stock-based compensation cost recognized has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures and expected life are estimated based on historical experience related to similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. TDS believes that its historical experience provides the best estimates of future pre-vesting forfeitures and future expected life. The expected volatility assumption is based on the historical volatility of TDS' common stock over a period commensurate with the expected life. The dividend yield assumption is equal to the dividends declared in the most recent year as a percentage of the share price on the date of grant. The risk-free interest rate assumption is determined using the U.S. Treasury Yield Curve Rate with a term length that approximates the expected life of the stock options.

Beginning with grants in 2013, newly granted TDS stock option awards cliff vest in three years. TDS stock option awards granted prior to 2013 and U.S. Cellular stock option awards vest on an annual basis in three separate tranches. Compensation cost is recognized on a straight-line basis over the requisite service period, which was generally the vesting period, for each separate vesting portion of the awards as if the awards were, in-substance, multiple awards (graded vesting attribution method).

**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. TDS was required to adopt the provisions of ASU 2014-08 effective January 1, 2015, but early adoption was permitted. TDS adopted the provisions of ASU 2014-08 upon its issuance. The adoption of ASU 2014-08 did not have a significant impact on TDS' financial position or results of operations.

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

On August 27, 2014, the FASB issued Accounting Standards Update 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in financial statements. TDS is required to adopt the provisions of ASU 2014-15 effective January 1, 2016, but early adoption is permitted. The adoption of ASU 2014-15 is not expected to impact TDS' financial position or results of operations.

On January 9, 2015, the FASB issued Accounting Standards Update 2015-01, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items* ("ASU 2015-01"). ASU 2015-01 eliminates from GAAP the requirement to separately classify, present and disclose extraordinary events and transactions. TDS is required to adopt the provisions of ASU 2015-01 effective January 1, 2016, but early adoption is permitted. The adoption of ASU 2015-01 is not expected to impact TDS' financial position or results of operations.

On February 18, 2015, the FASB issued Accounting Standards Update 2015-02, *Consolidation: Amendments to the Consolidation Analysis* ("ASU 2015-02"). ASU 2015-02 simplifies consolidation accounting by reducing the number of consolidation models and changing various aspects of current GAAP, including certain consolidation criteria for variable interest entities. TDS is required to adopt the provisions of ASU 2015-02 effective January 1, 2016. Early adoption is permitted. TDS is still assessing the impact, if any, the adoption of ASU 2015-02 will have on TDS' financial position or results of operations.

**NOTE 2 FAIR VALUE MEASUREMENTS**

As of December 31, 2014 and 2013, TDS did not have any financial or nonfinancial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP.

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

TDS has applied the provisions of fair value accounting for purposes of computing the fair value of financial instruments for disclosure purposes as displayed below.

| | Level within the Fair Value Hierarchy | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|---|
| | | Book Value | Fair Value | Book Value | Fair Value |
| **(Dollars in thousands)** | | | | | |
| Cash and cash equivalents | 1 | $ 471,901 | $ 471,901 | $ 830,014 | $ 830,014 |
| Short-term investments | | | | | |
| U.S. Treasury Notes | 1 | - | - | 50,104 | 50,104 |
| Long-term debt | | | | | |
| Retail | 2 | 1,453,250 | 1,414,105 | 1,178,250 | 1,048,010 |
| Institutional and other | 2 | 537,471 | 518,322 | 537,454 | 512,635 |

Short-term investments are designated as held-to-maturity investments and recorded at amortized cost in the Consolidated Balance Sheet. For these investments, TDS' 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.

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. Long-term debt excludes capital lease obligations and the current portion of Long-term debt. The fair value of "Retail" Long-term debt was estimated using market prices for TDS' 7.0% Senior Notes, 6.875% Senior Notes, 6.625% Senior Notes and 5.875% Senior Notes, and U.S. Cellular's 6.95% Senior Notes and 7.25% Senior Notes. TDS' "Institutional" debt consists of U.S. Cellular's 6.7% Senior Notes which are traded over the counter. TDS estimated the fair value of its Institutional and other debt through a discounted cash flow analysis using the interest rates or estimated yield to maturity for each borrowing, which ranged from 0.00% to 7.25% at December 31, 2014 and 0.00% to 7.35% at December 31, 2013.

## NOTE 3 EQUIPMENT INSTALLMENT PLANS

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

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

The following table summarizes the unbilled equipment installment plan receivables as of December 31, 2014 and 2013. Such amounts are presented on the Consolidated Balance Sheet as Accounts receivable – customers and agents and Other assets and deferred charges, where applicable.

| **(Dollars in thousands)** | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Short-term portion of unbilled equipment installment plan receivables, gross | $ 127,400 | $ 611 |
| Short-term portion of unbilled deferred interest | (16,365) | - |
| Short-term portion of unbilled allowance for credit losses | (3,686) | (20) |
| Short-term portion of unbilled equipment installment plan receivables, net | $ 107,349 | $ 591 |
| | | |
| Long-term portion of unbilled equipment installment plan receivables, gross | $ 89,435 | $ - |
| Long-term portion of unbilled deferred interest | (2,791) | - |
| Long-term portion of unbilled allowance for credit losses | (6,065) | - |
| Long-term portion of unbilled equipment installment plan receivables, net | $ 80,579 | $ - |

TDS considers the collectability of the equipment installment plan receivables based on historical payment experience, account aging and other qualitative factors. The credit profiles of TDS customers on equipment installment plans are similar to those of TDS customers with traditional subsidized plans. Customers with a higher risk credit profile are required to make a deposit for equipment purchased through an installment contract.

## NOTE 4 INCOME TAXES

TDS' current income taxes balances at December 31, 2014 and 2013 were as follows:

| **December 31,** **(Dollars in thousands)** | **2014** | **2013** |
|---|---|---|
| Federal income taxes receivable (payable) | $ 108,820 | $ (20,288) |
| Net state income taxes receivable (payable) | 4,391 | 2,397 |

Income tax expense (benefit) is summarized as follows:

| **Year Ended December 31,** **(Dollars in thousands)** | **2014** | **2013** | **2012** |
|---|---|---|---|
| Current | | | |
| Federal | $ (87,736) | $ 181,579 | $ 9,705 |
| State | 11,091 | 11,614 | 5,092 |
| Deferred | | | |
| Federal | 41,851 | (65,970) | 61,113 |
| Federal - valuation allowance adjustment | (10,816) | - | - |
| State | 2,208 | (1,180) | (2,328) |
| State - valuation allowance adjustment | 38,470 | - | - |
| | $ (4,932) | $ 126,043 | $ 73,582 |

A reconciliation of TDS' income tax expense computed at the statutory rate to the reported income tax expense, and the statutory federal income tax expense rate to TDS' effective income tax expense rate is as follows:

| **Year Ended December 31,** | **2014** | | **2013** | | **2012** | |
|---|---|---|---|---|---|---|
| | **Amount** | **Rate** | **Amount** | **Rate** | **Amount** | **Rate** |
| **(Dollars in millions)** | | | | | | |
| Statutory federal income tax expense and rate | $ (53.3) | 35.0 % | $ 102.5 | 35.0 % | $ 68.7 | 35.0 % |
| State income taxes, net of federal benefit (1) | 42.8 | (28.1) | 10.5 | 3.6 | 8.4 | 4.2 |
| Effect of noncontrolling interests | (5.8) | 3.8 | (1.0) | (0.4) | - | - |
| Gains (losses) on investments and sale of assets (2) | - | - | 14.9 | 5.1 | - | - |
| Correction of deferred taxes (3) | - | - | - | - | (6.1) | (3.1) |
| Change in federal valuation allowance (4) | (8.7) | 5.7 | - | - | - | - |
| Goodwill impairment (5) | 18.3 | (12.0) | - | - | - | - |
| Other differences, net | 1.8 | (1.2) | (0.9) | (0.3) | 2.6 | 1.4 |
| Total income tax expense and rate | $ (4.9) | 3.2 % | $ 126.0 | 43.0 % | $ 73.6 | 37.5 % |

(1) State income taxes, net of federal benefit, include changes in unrecognized tax benefits as well as adjustments to the valuation allowance. During the third quarter of 2014 TDS recorded a $38.5 million increase to income tax expense related to a valuation allowance recorded against certain state deferred tax assets. In each interim period, TDS evaluates the available positive and negative evidence to assess whether deferred tax assets are realizable, on a more likely than not basis. During the year ended December 31, 2014, based on revised forecasts of future state income, TDS concluded that the negative evidence related to the realization of certain state deferred tax assets outweighed the positive evidence. Accordingly, TDS determined that such deferred tax assets related to certain states were not realizable, on a more likely than not basis.

(2) Gains (losses) on investments and sale of assets represents 2013 tax expense related to the NY1 & NY2 Deconsolidation and the Divestiture Transaction.

(3) Correction of deferred taxes reflects immaterial adjustments to correct deferred tax balances in 2012 related to tax basis and law changes that related to periods prior to 2012.

(4) Change in federal valuation allowance relates primarily to a decrease to income tax expense in the third quarter of 2014 due to a valuation allowance reduction for federal net operating losses previously limited under loss utilization rules. Due to the shutdown of Airadigm's consumer wireless business and resulting intercompany sale of certain assets by Airadigm to U.S. Cellular during the year (as described in Note 6 — Acquisitions, Divestitures and Exchanges), Airadigm is expected to recognize sufficient taxable income for TDS to utilize the previously limited net operating losses.

(5) Goodwill impairment reflects an adjustment to increase income tax expense by $18.3 million related to a portion of the goodwill impairment of Suttle-Straus and the HMS reporting unit recorded in 2014 which is nondeductible for income tax purposes. See Note 7 — Intangible Assets for additional information related to the goodwill impairment.

Significant components of TDS' deferred income tax assets and liabilities at December 31, 2014 and 2013 were as follows:

| **December 31,** | **2014** | **2013** |
|---|---|---|
| **(Dollars in thousands)** | | |
| Deferred tax assets | | |
| Current deferred tax assets | $ 113,402 | $ 114,532 |
| Net operating loss ("NOL") carryforwards | 135,676 | 121,651 |
| Stock-based compensation | 54,789 | 50,563 |
| Compensation and benefits - other | 11,014 | 12,681 |
| Deferred rent | 19,604 | 20,500 |
| Other | 35,523 | 32,444 |
| Total deferred tax assets | 370,008 | 352,371 |
| Less valuation allowance | (113,553) | (79,064) |
| Net deferred tax assets | 256,455 | 273,307 |
| Deferred tax liabilities | | |
| Property, plant and equipment | 667,540 | 637,090 |
| Licenses/intangibles | 259,865 | 251,578 |
| Partnership investments | 151,123 | 136,581 |
| Other | 9,724 | 4,956 |
| Total deferred tax liabilities | 1,088,252 | 1,030,205 |
| Net deferred income tax liability | $ 831,797 | $ 756,898 |

At December 31, 2014, TDS and certain subsidiaries had $2,315.3 million of state NOL carryforwards (generating a $111.3 million deferred tax asset) available to offset future taxable income. The state NOL carryforwards expire between 2015 and 2034. Certain subsidiaries had federal NOL carryforwards (generating a $24.3 million deferred tax asset) available to offset their future taxable income. The federal NOL carryforwards expire between 2018 and 2034. A valuation allowance was established for certain state NOL carryforwards and federal NOL carryforwards since it is more likely than not that a portion of such carryforwards will expire before they can be utilized.

A summary of TDS' deferred tax asset valuation allowance is as follows:

| (Dollars in thousands) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Balance at January 1, | $ 79,064 | $ 70,502 | $ 49,686 |
| Charged to income tax expense | 34,489 | 1,954 | 5,268 |
| Charged to other accounts | - | 6,608 | 15,548 |
| Balance at December 31, | $ 113,553 | $ 79,064 | $ 70,502 |

As of December 31, 2014, the valuation allowance reduced current deferred tax assets by $5.7 million and noncurrent deferred tax assets by $107.8 million.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| (Dollars in thousands) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Unrecognized tax benefits balance at January 1, | $ 30,390 | $ 28,420 | $ 28,841 |
| Additions for tax positions of current year | 7,610 | 6,388 | 7,027 |
| Additions for tax positions of prior years | 883 | 1,858 | 1,673 |
| Reductions for tax positions of prior years | (399) | (467) | (7) |
| Reductions for settlements of tax positions | (312) | (1,337) | (21) |
| Reductions for lapses in statutes of limitations | (356) | (4,472) | (9,093) |
| Unrecognized tax benefits balance at December 31, | $ 37,816 | $ 30,390 | $ 28,420 |

Unrecognized tax benefits are included in Accrued taxes and Other deferred liabilities and credits in the Consolidated Balance Sheet. If these benefits were recognized, they would have reduced income tax expense in 2014, 2013 and 2012 by $24.6 million, $19.8 million and $18.6 million, respectively, net of the federal benefit from state income taxes.

As of December 31, 2014, it is reasonably possible that unrecognized tax benefits could decrease by approximately $10 million in the next twelve months. The nature of the uncertainty relates primarily to state income tax positions and their resolution or the expiration of statutes of limitation.

TDS recognizes accrued interest and penalties related to unrecognized tax benefits in Income tax expense. The amounts charged to income tax expense related to interest and penalties resulted in an expense of $3.4 million and $0.7 million in 2014 and 2013, respectively, and a benefit of $1.5 million in 2012. Net accrued interest and penalties were $16.2 million and $12.4 million at December 31, 2014 and 2013, respectively.

TDS and its subsidiaries file federal and state income tax returns. TDS remains subject to federal income tax audits for the tax years after 2011. With only a few exceptions, TDS is no longer subject to state income tax audits for years prior to 2010.

**NOTE 5 EARNINGS PER SHARE**

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

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

| Year Ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| (Dollars and shares in thousands, except earnings per share) | | | |
| Basic earnings (loss) per share attributable to TDS shareholders: | | | |
| Net income (loss) available to common shareholders of TDS used in basic earnings (loss) per share | $ (136,404) | $ 141,878 | $ 81,811 |
| Adjustments to compute diluted earnings: | | | |
| Noncontrolling interest adjustment | - | (1,058) | (640) |
| Preferred dividend adjustment | - | 49 | - |
| Net income (loss) attributable to common shareholders of TDS used in diluted earnings (loss) per share | $ (136,404) | $ 140,869 | $ 81,171 |
| Weighted average number of shares used in basic earnings (loss) per share | | | |
| Common Shares | 101,304 | 101,339 | 101,532 |
| Series A Common Shares | 7,181 | 7,151 | 7,139 |
| Total | 108,485 | 108,490 | 108,671 |
| Effects of dilutive securities: | | | |
| Stock options (1) | - | 209 | 11 |
| Restricted stock units (1) | - | 375 | 255 |
| Preferred shares (1) | - | 58 | - |
| Weighted average number of shares used in diluted earnings (loss) per share | 108,485 | 109,132 | 108,937 |
| Basic earnings (loss) per share attributable to TDS shareholders | $ (1.26) | $ 1.31 | $ 0.75 |
| Diluted earnings (loss) per share attributable to TDS shareholders | $ (1.26) | $ 1.29 | $ 0.75 |

(1) There were no effects of dilutive securities for the year ended December 31, 2014 due to the net loss for the year.

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 (loss) per share calculation was fully reflected for all years presented.

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

| Year Ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| (Shares in thousands) | | | |
| Stock options | 8,984 | 7,120 | 8,130 |
| Restricted stock units | 839 | 171 | 154 |
| Preferred shares | 56 | - | 57 |

## NOTE 6 ACQUISITIONS, DIVESTITURES AND EXCHANGES

Acquisitions did not have a material impact on TDS' consolidated financial statements for the periods presented and pro forma results, assuming acquisitions had occurred at the beginning of each period presented, would not be materially different from the results reported.

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."

These other agreements included customer and network transition services agreements, which required 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 reimbursed 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 Cost of services the Consolidated Statement of Operations. In 2014 and 2013, $71.1 million and $10.6 million, respectively, 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 TDS 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.

| (Dollars in thousands) | Expected Period of Recognition | Projected Range | | Cumulative Amount Recognized as of December 31, 2014 | Actual Amount Recognized Year Ended December 31, 2014 | Actual Amount Recognized Year Ended December 31, 2013 | Actual Amount Recognized Year Ended December 31, 2012 |
|---|---|---|---|---|---|---|---|
| **(Gain) loss on sale of business and other exit costs, net** | | | | | | | |
| Proceeds from Sprint | | | | | | | |
| Purchase price | 2013 | $ (480,000) | $ (480,000) | $ (480,000) | $ - | $ (480,000) | $ - |
| Sprint Cost Reimbursement | 2013-2015 | (120,000) | (175,000) | (111,970) | (64,329) | (47,641) | - |
| Net assets transferred | 2013 | 160,073 | 160,073 | 160,073 | - | 160,073 | - |
| Non-cash charges for the write-off and write-down of property under construction and related assets | 2012-2015 | 20,000 | 22,000 | 20,410 | 9,735 | 3 | 10,672 |
| Employee related costs including severance, retention and outplacement | 2012-2015 | 13,000 | 16,000 | 14,147 | (115) | 1,653 | 12,609 |
| Contract termination costs | 2012-2015 | 70,000 | 100,000 | 84,320 | 24,736 | 59,525 | 59 |
| Transaction costs | 2012-2015 | 5,000 | 7,000 | 6,284 | 719 | 4,428 | 1,137 |
| Total (Gain) loss on sale of business and other exit costs, net | | $ (331,927) | $ (349,927) | $ (306,736) | $ (29,254) | $ (301,959) | $ 24,477 |
| **Depreciation, amortization and accretion expense** | | | | | | | |
| Incremental depreciation, amortization and accretion, net of salvage values | 2012-2014 | 215,049 | 215,049 | 215,049 | 16,478 | 178,513 | 20,058 |
| **(Increase) decrease in Operating income** | | $ (116,878) | $ (134,878) | $ (91,687) | $ (12,776) | $ (123,446) | $ 44,535 |

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.

In 2014, TDS recorded $3.4 million of additional Depreciation, amortization and accretion expense for the Divestiture Markets due to higher asset retirement obligation remediation estimates.

As a result of the transaction, TDS recognized the following amounts in the Consolidated Balance Sheet:

| (Dollars in thousands) | Balance December 31, 2013 | Year Ended December 31, 2014 Costs Incurred | Cash Settlements (1) | Adjustments (2) | Balance December 31, 2014 |
|---|---|---|---|---|---|
| **Accrued compensation** | | | | | |
| Employee related costs including severance, retention, outplacement | $ 2,053 | $ 127 | $ (1,223) | $ (242) | $ 715 |
| **Accounts payable** | | | | | |
| Contract termination costs | $ - | $ 4,018 | $ - | $ (1,190) | $ 2,828 |
| **Other current liabilities** | | | | | |
| Contract termination costs | $ 13,992 | $ 12,703 | $ (22,210) | $ 3,747 | $ 8,232 |
| **Other deferred liabilities and credits** | | | | | |
| Contract termination costs | $ 30,849 | $ 24,171 | $ (3,569) | $ (30,411) | $ 21,040 |

| (Dollars in thousands) | Balance December 31, 2012 | Year Ended December 31, 2013 Costs Incurred | Cash Settlements (1) | Adjustments (2) | Balance December 31, 2013 |
|---|---|---|---|---|---|
| **Accrued compensation** | | | | | |
| Employee related costs including severance, retention, outplacement | $ 12,305 | $ 6,853 | $ (11,905) | $ (5,200) | $ 2,053 |
| **Other current liabilities** | | | | | |
| Contract termination costs | $ 30 | $ 22,675 | $ (8,713) | $ - | $ 13,992 |
| **Other deferred liabilities and credits** | | | | | |
| Contract termination costs | $ - | $ 34,283 | $ (3,434) | $ - | $ 30,849 |

(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 in the Consolidated Statement of Cash Flows.

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

Airadigm Transaction

On May 23, 2014 (the "Signing Date"), U.S. Cellular entered into a License Purchase and Customer Recommendation Agreement with Airadigm. Pursuant to the License Purchase and Customer Recommendation Agreement, on September 10, 2014, Airadigm transferred to U.S. Cellular Federal Communications Commission ("FCC") spectrum licenses and certain tower assets in certain markets in Wisconsin, Iowa, Minnesota and Michigan, in consideration for $91.5 million in cash. Since both parties to this transaction are controlled by TDS, upon closing, U.S. Cellular recorded the transferred assets at Airadigm's net book value. The transaction also impacts the expected realization of Airadigm's federal net operating loss carryforwards and therefore TDS reduced its valuation allowance by $10.8 million upon the transaction closing and recognized an income tax benefit for this same amount. See Note 4 — Income Taxes.

Airadigm has shut down operation of its consumer wireless business and most of the associated network. Except for certain machine to machine operations that will be continued, Airadigm's assets not acquired by U.S. Cellular will be sold or otherwise disposed of, its tower leases, interconnection and other agreements will be terminated and most of its employees have been terminated. The shut-down of Airadigm's consumer wireless business was substantially complete in the third quarter of 2014 while network decommissioning is ongoing. As a result of the Agreement and the related impacts from the shut-down of Airadigm's consumer wireless business discussed herein, TDS recognized expenses related to exit and disposal activities within Operating income in its Statement of Operations between the Signing Date and December 31, 2014:

| (Dollars in thousands) | Projected Range | | | | Actual Amount Recognized Year Ended December 31, 2014 | |
|---|---|---|---|---|---|---|
| **(Gain) loss on sale of business and other exit costs, net** | | | | | | |
| Charges for the impairment and decommissioning of various operating assets | $ | 8,000 | $ | 12,000 | $ | 8,467 |
| Employee related costs including severance, retention and outplacement | | 500 | | 1,500 | | 676 |
| Contract termination costs | | 10,000 | | 15,000 | | 11,099 |
| Total (Gain) loss on sale of business and other exit costs, net | $ | 18,500 | $ | 28,500 | $ | 20,242 |

As a result of the transaction, TDS recognized the following amounts in the Consolidated Balance Sheet:

| (Dollars in thousands) | Balance May 23, 2014 | | Year Ended December 31, 2014: Costs Incurred | | Cash Settlements (1) | | Adjustments (2) | | Balance December 31, 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Accrued compensation** | | | | | | | | | | |
| Employee related costs including severance, retention and outplacement | $ | - | $ | 676 | $ | (523) | $ | - | $ | 153 |
| **Other current liabilities** | | | | | | | | | | |
| Contract termination costs | $ | - | $ | 7,475 | $ | (4,291) | $ | 1,043 | $ | 4,227 |
| **Other deferred liabilities and credits** | | | | | | | | | | |
| Contract termination costs | $ | - | $ | 3,975 | $ | - | $ | (1,396) | $ | 2,579 |

(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

- In December 2014, U.S. Cellular entered into an agreement with a third party to sell 595 towers and certain related contracts, assets, and liabilities for approximately $159 million. This transaction was accomplished in two closings. The first closing occurred in December 2014 and included the sale of 236 towers, without tenants, for $10.0 million. On this same date, U.S. Cellular received $7.5 million in earnest money. At the time of the first closing, a $4.7 million gain was recorded in (Gain) loss on sale of business and other exit costs, net. The second closing for the remaining 359 towers, primarily with tenants, took place in January 2015, at which time U.S. Cellular received $141.5 million in additional cash proceeds and recorded a gain of approximately $119 million. The assets and liabilities subject to the second closing have been classified as "held for sale" in the Consolidated Balance Sheet as of December 31, 2014.

- In September 2014, U.S. Cellular entered into an agreement with a third party to exchange certain PCS and AWS licenses for certain other PCS and AWS licenses and $28.0 million of cash. This license exchange will be accomplished in two closing transactions. The first closing occurred in December 2014 at which time U.S. Cellular received licenses with an estimated fair value, per a market approach, of $51.5 million, recorded a $21.7 million gain in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations and recorded an $18.3 million deferred credit in Other current liabilities. The second closing is expected to occur in 2015. The license that will be transferred has been classified as "Assets held for sale" in the Consolidated Balance Sheet as of December 31, 2014. At the time of the second closing, TDS will recognize the deferred credit from the first closing and expects to record a gain on the license exchange.

- In September 2014, U.S. Cellular entered into an agreement with a third party to exchange certain of its PCS unbuilt licenses for PCS licenses located in U.S. Cellular's operating markets plus $117.0 million of cash. This transaction is subject to regulatory approvals and is expected to close in 2015. The book value of the licenses to be exchanged have been classified as

"Assets held for sale" in the Consolidated Balance Sheet at December 31, 2014. TDS expects to record a gain when this transaction closes.

- In September 2014, TDS acquired substantially all of the assets of a group of companies operating as BendBroadband ("Bend"), headquartered in Bend, Oregon for $260.7 million in cash. Bend is a full-service communications company, offering an extensive range of broadband, fiber connectivity, cable television and telephone services for commercial and residential customers in Central Oregon. As part of the agreement, TDS also acquired a Tier III data center providing colocation and managed services and a cable advertising and broadcast business. Bend service offerings complement the current portfolio of products offered through TDS Telecom businesses. Goodwill was recorded due primarily to the expectation of future growth and synergies in Cable segment operations. The operations of the data center are included in the HMS segment. The operations of the cable and the advertising and broadcast businesses are included in the Cable segment.

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

- In February 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, TDS recognized a gain of $15.7 million, representing the difference between the $15.9 million fair value of the license surrendered, calculated using a market approach valuation method, and the $0.2 million carrying value of the license surrendered. This gain was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations in the first quarter of 2014.

- In October 2013, TDS acquired 100% of the outstanding shares of MSN Communications, Inc. ("MSN") for $43.6 million in cash. MSN is an information technology solutions provider whose service offerings complement the HMS portfolio of products. MSN is included in the HMS segment for reporting purposes.

- In October 2013, U.S. Cellular sold the majority of its Mississippi Valley non-operating market license ("unbuilt license") for $308.0 million. At the time of the sale, a $250.6 million gain was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations.

- In August 2013, TDS Telecom acquired substantially all of the assets of Baja for $264.1 million in cash. Baja is a cable company that operates in markets primarily in Colorado, New Mexico, Texas, and Utah and offers broadband, video and voice services, which complement the TDS Telecom portfolio of products. Baja is included in the Cable segment for reporting purposes.

- In November 2012, U.S. Cellular acquired seven 700 MHz licenses covering portions of Illinois, Michigan, Minnesota, Missouri, Nebraska, Oregon, Washington and Wisconsin for $57.7 million.

- In August 2012, U.S. Cellular acquired four 700 MHz licenses covering portions of Iowa, Kansas, Missouri, Nebraska and Oklahoma for $34.0 million.

- In June 2012, TDS paid $46.1 million in cash to purchase 100% of the outstanding shares of Vital Support Systems, LLC ("Vital"). Vital is an information technology solutions provider whose service offerings complement the HMS portfolio of products. Vital is included in the HMS segment for reporting purposes.

- In March 2012, U.S. Cellular sold the majority of the assets and liabilities of a wireless market for $49.8 million in cash. At the time of the sale, a $4.2 million gain was recorded in (Gain) loss on sale of business and other exit costs, net in the Consolidated Statement of Operations.

TDS' acquisitions in 2014 and 2013 and the allocation of the purchase price for these acquisitions were as follows:

| | | Allocation of Purchase Price | | | | |
|---|---|---|---|---|---|---|
| | Purchase Price (1) | Goodwill (2) | Licenses | Franchise Rights | Intangible Assets Subject to Amortization (3) | Net Tangible Assets/(Liabilities) |
| **(Dollars in thousands)** | | | | | | |
| **2014** | | | | | | |
| U.S. Cellular licenses | $ 41,707 | $ - | $ 41,707 | $ - | $ - | $ - |
| TDS Telecom cable businesses | 273,789 | 33,610 | 2,703 | 120,979 | 14,056 | 102,441 |
| Total | $ 315,496 | $ 33,610 | $ 44,410 | $ 120,979 | $ 14,056 | $ 102,441 |
| **2013** | | | | | | |
| U.S. Cellular licenses | $ 16,540 | $ - | $ 16,540 | $ - | $ - | $ - |
| TDS Telecom cable business | 264,069 | 61,712 | - | 123,668 | 11,542 | 67,147 |
| TDS Telecom HMS business | 43,557 | 15,203 | - | - | 17,183 | 11,171 |
| Total | $ 324,166 | $ 76,915 | $ 16,540 | $ 123,668 | $ 28,725 | $ 78,318 |

(1) Cash amounts paid for acquisitions may differ from the purchase price due to cash acquired in the transactions and the timing of cash payments related to the respective transactions.

(2) The entire amount of Goodwill acquired in 2014 and 2013 was amortizable for income tax purposes.

(3) At the date of acquisition, the weighted average amortization period for Intangible Assets Subject to Amortization acquired was as follows:
2014: 4.6 years for TDS Telecom cable business;
2013: 2.9 years for TDS Telecom cable business and 10 years for TDS HMS business

At December 31, 2014 and 2013, the following assets were classified in the Consolidated Balance Sheet as "Assets held for sale" and "Liabilities held for sale":

| | Current Assets | Other Assets and Deferred Charges | Licenses | Goodwill | Property, Plant and Equipment | Total Assets Held for Sale |
|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | | | | | | |
| **2014** | | | | | | |
| Divestiture of Spectrum Licenses | $ - | $ - | $ 56,809 | $ - | $ - | $ 56,809 |
| Sale of Business - Towers | 1,472 | 773 | - | 4,344 | 31,770 | 38,359 |
| Divestiture of Wireline markets (1) | 215 | 2 | - | 4,100 | 3,858 | 8,175 |
| Total | $ 1,687 | $ 775 | $ 56,809 | $ 8,444 | $ 35,628 | $ 103,343 |
| **2013** | | | | | | |
| Divestiture of Spectrum Licenses | $ - | $ - | $ 16,027 | $ - | $ - | $ 16,027 |

(1) On December 30, 2014, TDS Telecom entered into an agreement with a third party to sell certain Wireline markets.

| | Current Liabilities | Other Deferred Liabilities and Credits | Total Liabilities Held for Sale |
|---|---|---|---|
| **(Dollars in thousands)** | | | |
| **2014** | | | |
| Sale of Business - Towers | $ 3,607 | $ 17,641 | $ 21,248 |
| Divestiture of Wireline markets | 218 | 177 | 395 |
| Total | $ 3,825 | $ 17,818 | $ 21,643 |

## NOTE 7 INTANGIBLE ASSETS

Changes in TDS' Licenses, Franchise rights and Goodwill are presented below. See Note 6 — Acquisitions, Divestitures and Exchanges for information regarding transactions which affected Licenses, Franchise rights and Goodwill during the periods. Previously under GAAP, TDS accounted for U.S. Cellular's share repurchases as step acquisitions, allocating a portion of the share repurchase value to TDS' Licenses and Goodwill. Consequently, U.S. Cellular's Licenses and Goodwill on a stand-alone basis do not equal the TDS consolidated Licenses and Goodwill related to U.S. Cellular.

### Licenses

| (Dollars in thousands) | U.S. Cellular | Wireline | Cable | Other (1) | Total |
|---|---|---|---|---|---|
| Balance December 31, 2012 | $ 1,462,019 | $ 2,800 | $ - | $ 15,220 | $ 1,480,039 |
| Acquisitions | 16,540 | - | - | - | 16,540 |
| Transferred to Assets held for sale | (16,027) | - | - | - | (16,027) |
| Divestitures | (59,419) | - | - | - | (59,419) |
| Other | 2,646 | - | - | - | 2,646 |
| Balance December 31, 2013 | 1,405,759 | 2,800 | - | 15,220 | 1,423,779 |
| Acquisitions | 41,707 | - | 2,703 | - | 44,410 |
| Transferred to Assets held for sale | (56,809) | - | - | - | (56,809) |
| Exchanges, net | 55,780 | - | - | - | 55,780 |
| Divestitures | - | - | - | (15,220) | (15,220) |
| Other | 1,634 | - | - | - | 1,634 |
| Balance December 31, 2014 | $ 1,448,071 | $ 2,800 | $ 2,703 | $ - | $ 1,453,574 |

(1) Represents the transfer of licenses from Airadigm to U.S. Cellular in 2014. See Note 6 — Acquisitions, Divestitures and Exchanges for additional information.

### Franchise rights

| (Dollars in thousands) | Cable |
|---|---|
| Balance December 31, 2012 | $ - |
| Acquisitions | 123,668 |
| Balance December 31, 2013 | 123,668 |
| Acquisitions | 120,979 |
| Divestitures | (347) |
| Balance December 31, 2014 | $ 244,300 |

**Goodwill**

| (Dollars in thousands) | U.S. Cellular | Wireline (1) | Cable | HMS | Other (2) | Total |
|---|---|---|---|---|---|---|
| Balance December 31, 2012 (3) | $ 269,307 | $ 420,458 | $ - | $ 103,627 | $ 3,802 | $ 797,194 |
| Acquisitions | - | - | 61,712 | 15,203 | - | 76,915 |
| Divestitures | (135) | - | - | - | - | (135) |
| NY1 & NY2 Deconsolidation | (37,131) | - | - | - | - | (37,131) |
| Balance December 31, 2013 | 232,041 | 420,458 | 61,712 | 118,830 | 3,802 | 836,843 |
| Acquisitions | - | - | 33,610 | - | - | 33,610 |
| Loss on impairment | - | - | - | (84,000) | (3,802) | (87,802) |
| Divestitures | (291) | (2,564) | - | - | - | (2,855) |
| Transferred to Assets held for sale | (4,344) | (4,100) | - | - | - | (8,444) |
| Balance December 31, 2014 | $ 227,406 | $ 413,794 | $ 95,322 | $ 34,830 | $ - | $ 771,352 |

(1) In July 2014, TDS Telecom sold certain Wireline markets.

(2) TDS performed its annual impairment review of Goodwill in the fourth quarter of 2014. Based on the results of this review, TDS concluded that the entire amount of Goodwill related to Suttle-Straus was impaired, which resulted in a $3.8 million loss on impairment.

(3) Includes accumulated impairment losses in prior periods as follows: $333.9 million for U.S. Cellular, $29.4 million for Wireline and $0.5 million for Other.

**Interim Goodwill Impairment Assessment**

During the third quarter of 2014, due to a decline in projected revenue and earnings of TDS Telecom's HMS reporting unit compared with previously projected results, TDS determined that an interim impairment test of HMS Goodwill was required. TDS performed the Step 1 Goodwill impairment test, as defined by GAAP, as of August 1, 2014.

The discounted cash flow approach and guideline public company method were used to value the HMS reporting unit. The discounted cash flow approach uses value drivers and risks specific to the industry and current economic factors. The cash flow estimates incorporated assumptions that market participants would use in their estimates of fair value and may not be indicative of TDS Telecom specific assumptions. The most significant assumptions made in this process were the revenue growth rate (shown as a ten year compound annual growth rate in the table below), the terminal revenue growth rate, the discount rate and capital expenditures as a percentage of revenue (shown as a ten year simple average in the table below).

The guideline public company method develops an indication of fair value by calculating average market pricing multiples for selected publicly-traded companies. The developed multiples were applied to applicable financial measures of the HMS reporting unit to determine fair value. The discounted cash flow approach and guideline public company method were weighted to arrive at the total fair value used for impairment testing.

The following table represents key assumptions used in estimating the fair value of the HMS reporting unit as of August 1, 2014 using the discounted cash flow approach.

| Key assumptions | HMS |
|---|---|
| Revenue growth rate | 6.1 % |
| Terminal revenue growth rate | 2.5 % |
| Discount rate | 11.5 % |
| Capital expenditures as a percentage of revenue | 8.6 % |

As of August 1, 2014, the carrying value of the HMS reporting unit exceeded its fair value; therefore, a Step 2 Goodwill impairment test was performed. The second step compared the implied fair value of the reporting unit Goodwill to the carrying amount of that Goodwill. To calculate the implied fair value of Goodwill in this second step, TDS allocated the fair value of the reporting unit to all of the assets and liabilities of that reporting unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amount assigned to the assets and liabilities of the reporting unit was the implied fair value of Goodwill. Since the carrying amount of Goodwill exceeded the implied fair value of Goodwill, an impairment loss was recognized for that difference. As a result of the Step 2 Goodwill impairment test, TDS recognized a loss on impairment of $84.0 million during the third quarter of 2014.

## NOTE 8 INVESTMENTS IN UNCONSOLIDATED ENTITIES

Investments in unconsolidated entities consist of amounts invested in wireless and wireline entities in which TDS holds a noncontrolling interest. These investments are accounted for using either the equity or cost method as shown in the following table:

| December 31, (Dollars in thousands) | 2014 | 2013 |
|---|---|---|
| Equity method investments: | | |
| Capital contributions, loans, advances and adjustments | $ 127,939 | $ 132,629 |
| Cumulative share of income | 1,323,898 | 1,186,900 |
| Cumulative share of distributions | (1,145,438) | (1,033,087) |
| | 306,399 | 286,442 |
| Cost method investments | 15,330 | 15,330 |
| Total investments in unconsolidated entities | $ 321,729 | $ 301,772 |

Equity in earnings of unconsolidated entities totaled $132.0 million, $132.7 million and $92.9 million in 2014, 2013 and 2012, respectively; of those amounts, TDS' investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed $71.8 million, $78.4 million and $67.2 million in 2014, 2013 and 2012, respectively. TDS held a 5.5% ownership interest in the LA Partnership throughout and at the end of each of these years.

The following tables, which are based on information provided in part by third parties, summarize the combined assets, liabilities and equity, and the combined results of operations of TDS' equity method investments:

| December 31, (Dollars in thousands) | 2014 | 2013 |
|---|---|---|
| Assets | | |
| Current | $ 733,133 | $ 520,804 |
| Due from affiliates | 303,322 | 408,735 |
| Property and other | 2,345,562 | 2,080,436 |
| | $ 3,382,017 | $ 3,009,975 |
| Liabilities and Equity | | |
| Current liabilities | $ 407,073 | $ 355,167 |
| Deferred credits | 175,516 | 89,198 |
| Long-term liabilities | 29,342 | 31,605 |
| Long-term capital lease obligations | 1,722 | 707 |
| Partners' capital and shareholders' equity | 2,768,364 | 2,533,298 |
| | $ 3,382,017 | $ 3,009,975 |

| Year Ended December 31, (Dollars in thousands) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Results of Operations | | | |
| Revenues | $ 6,700,266 | $ 6,239,200 | $ 5,825,150 |
| Operating expenses | 5,063,925 | 4,492,372 | 4,381,731 |
| Operating income | 1,636,341 | 1,746,828 | 1,443,419 |
| Other income, net | 6,741 | 4,019 | 7,190 |
| Net income | $ 1,643,082 | $ 1,750,847 | $ 1,450,609 |

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, TDS deconsolidated the Partnerships effective as of April 3, 2013 and thereafter reported them as equity method investments in its consolidated financial statements ("NY1 & NY2 Deconsolidation"). After the NY1 & NY2 Deconsolidation, U.S. Cellular retained the same ownership percentages in the Partnerships and continues to report the same percentages of income from the Partnerships. Effective April 3, 2013, TDS' income from the Partnerships is reported in Equity in earnings of unconsolidated entities in the Consolidated Statement of Operations.

In accordance with GAAP, as a result of the NY1 & NY2 Deconsolidation, U.S. Cellular's interest in the Partnerships was reflected in Investments in unconsolidated entities at a fair value of $114.8 million as of April 3, 2013. Recording U.S. Cellular's interest in the Partnerships required allocation of the excess of fair value over book value to customer lists, licenses, a favorable contract and goodwill of the Partnerships. Amortization expense related to customer lists and the favorable contract will be recognized over their respective useful lives and is included in Equity in earnings of unconsolidated entities in the Consolidated Statement of Operations. In addition, TDS recognized a non-cash pre-tax gain of $14.5 million in the second quarter of 2013. The gain was recorded in Gain (loss) on investments in the Consolidated Statement of Operations.

The Partnerships were valued using a discounted cash flow approach and a guideline public company method. The discounted cash flow approach uses value drivers and risks specific to the industry and current economic factors and incorporates assumptions that market participants would use in their estimates of fair value and may not be indicative of TDS specific assumptions. The most significant assumptions made in this process were the revenue growth rate (shown as a simple average in the table below), the terminal revenue growth rate, discount rate and capital expenditures. The assumptions were as follows:

| **Key assumptions** | |
|---|---|
| Average expected revenue growth rate (next ten years) | 2.0 % |
| Terminal revenue growth rate (after year ten) | 2.0 % |
| Discount rate | 10.5 % |
| Capital expenditures as a percentage of revenue | 14.9-18.8% |

The guideline public company method develops an indication of fair value by calculating average market pricing multiples for selected publicly-traded companies. The developed multiples were applied to applicable financial measures of the Partnerships to determine fair value. The discounted cash flow approach and guideline public company method were weighted to arrive at the total fair value of the Partnerships.

## NOTE 9 PROPERTY, PLANT AND EQUIPMENT

U.S. Cellular's Property, plant and equipment in service and under construction, and related accumulated depreciation and amortization, as of December 31, 2014 and 2013 were as follows:

| **December 31,** | **Useful Lives (Years)** | **2014** | **2013** |
|---|---|---|---|
| **(Dollars in thousands)** | | | |
| Land | N/A | $ 35,031 | $ 36,266 |
| Buildings | 20 | 296,502 | 304,272 |
| Leasehold and land improvements | 1-30 | 1,086,718 | 1,197,520 |
| Cell site equipment | 7-25 | 3,269,609 | 3,306,575 |
| Switching equipment | 5-8 | 960,377 | 1,161,976 |
| Office furniture and equipment | 3-5 | 553,630 | 539,248 |
| Other operating assets and equipment | 3-5 | 89,663 | 92,456 |
| System development | 1-7 | 1,042,195 | 962,698 |
| Work in process | N/A | 125,015 | 116,501 |
| | | 7,458,740 | 7,717,512 |
| Accumulated depreciation and amortization | | (4,730,523) | (4,860,992) |
| | | $ 2,728,217 | $ 2,856,520 |

U.S. Cellular's depreciation and amortization expense totaled $593.2 million, $791.1 million and $597.7 million in 2014, 2013 and 2012, respectively. As a result of the Divestiture Transaction, U.S. Cellular recognized incremental depreciation and amortization in 2014, 2013 and 2012. See Note 6 – Acquisitions, Divestitures and Exchanges for additional information.

TDS Telecom's (including Wireline, Cable, and HMS) Property, plant and equipment in service and under construction, and related accumulated depreciation, as of December 31, 2014 and 2013 were as follows:

| **December 31,** | **Useful Lives (Years)** | **2014** | **2013** |
|---|---|---|---|
| **(Dollars in thousands)** | | | |
| Land | N/A | $ 16,974 | $ 12,794 |
| Buildings | 5-40 | 172,963 | 148,800 |
| Cable and wire | 15-35 | 1,628,782 | 1,523,123 |
| Network electronic equipment | 5-13 | 1,278,799 | 1,229,941 |
| Office furniture and equipment | 7-10 | 79,666 | 74,507 |
| Other equipment | 5-12 | 102,540 | 94,438 |
| System development | 3-7 | 241,153 | 230,416 |
| Work in process | N/A | 91,419 | 88,614 |
| | | 3,612,296 | 3,402,633 |
| Accumulated depreciation and amortization | | (2,518,625) | (2,417,999) |
| | | $ 1,093,671 | $ 984,634 |

The provision for certain Wireline companies' depreciation as a percentage of depreciable property was 5.2% in 2014, 5.3% in 2013 and 5.6% in 2012. TDS Telecom's depreciation and amortization expense related to Property, plant and equipment totaled $195.1 million, $182.6 million and $177.3 million in 2014, 2013 and 2012, respectively.

Corporate and other Property, plant and equipment in service and under construction, and related accumulated depreciation, as of December 31, 2014 and 2013 were as follows:

| **December 31,** | **2014** | **2013** |
|---|---|---|
| **(Dollars in thousands)** | | |
| Property, plant and equipment | $ 123,008 | $ 119,659 |
| Accumulated depreciation and amortization | (98,771) | (82,669) |
| Total | $ 24,237 | $ 36,990 |

Corporate and other fixed assets consist of assets at the TDS corporate offices, Suttle-Straus and Airadigm. Corporate and other depreciation and amortization expense related to Property, plant and equipment totaled $9.3 million, $10.7 million and $10.3 million in 2014, 2013 and 2012, respectively.

In 2014, 2013 and 2012, (Gain) loss on asset disposals, net included charges of $26.5 million, $30.8 million and $19.7 million, respectively, related to disposals of assets, trade-ins of older assets for replacement assets and other retirements of assets from service in the normal course of business.

## NOTE 10 ASSET RETIREMENT OBLIGATIONS

U.S. Cellular is subject to asset retirement obligations associated with its leased cell sites, switching office sites, retail store sites and office locations in its operating markets. Asset retirement obligations generally include obligations to restore leased land and retail store and office premises to their pre-lease conditions.

TDS Telecom owns poles, cable and wire and certain buildings and leases data center and office space and property used for housing central office switching equipment and fiber cable. These assets and leases often have removal or remediation requirements associated with them. For example, TDS Telecom's poles, cable and wire are often located on property that is not owned by TDS Telecom and are often subject to the provisions of easements, permits, or leasing arrangements. Pursuant to the terms of the permits, easements, or leasing arrangements, TDS Telecom is often required to remove these assets and return the property to its original condition at some defined date in the future.

Asset retirement obligations are included in Other deferred liabilities and credits and Other current liabilities in the Consolidated Balance Sheet.

In 2014 and 2013, U.S. Cellular and TDS Telecom performed a review of the assumptions and estimated costs related to asset retirement obligations. The results of the reviews (identified as "Revisions in estimated cash outflows") and other changes in asset retirement obligations during 2014 and 2013 were as follows:

| (Dollars in thousands) | U.S. Cellular | TDS Telecom | Other | TDS Consolidated |
|---|---|---|---|---|
| Balance December 31, 2013 | $ 195,568 | $ 75,395 | $ 4,275 | $ 275,238 |
| Additional liabilities accrued | 2,507 | 2,400 | - | 4,907 |
| Revisions in estimated cash outflows | (2,792) | 1,777 | 23 | (992) |
| Disposition of assets | (44,403) | (882) | (957) | (46,242) |
| Accretion expense | 12,534 | 4,723 | 249 | 17,506 |
| Transferred to Liabilities held for sale | (10,902) | (177) | (306) | (11,385) |
| Balance December 31, 2014 (1) | $ 152,512 | $ 83,236 | $ 3,284 | $ 239,032 |
| | | | | |
| Balance December 31, 2012 | $ 179,607 | $ 69,969 | $ 4,034 | $ 253,610 |
| Additional liabilities accrued | 635 | 3,667 | - | 4,302 |
| Revisions in estimated cash outflows | 6,268 | (2,562) | - | 3,706 |
| Disposition of assets | (3,534) | (577) | - | (4,111) |
| Accretion expense | 12,592 | 4,898 | 241 | 17,731 |
| Balance December 31, 2013 (1) | $ 195,568 | $ 75,395 | $ 4,275 | $ 275,238 |

(1) The total amount of asset retirement obligations related to the Divestiture Transaction and Airadigm Transaction included in Other current liabilities was $9.1 million and $37.7 million as of December 31, 2014 and 2013, respectively.

## NOTE 11 DEBT

### Revolving Credit Facilities

At December 31, 2014, TDS and U.S. Cellular had revolving credit facilities available for general corporate purposes. Amounts under the revolving credit facilities may be borrowed, repaid and reborrowed from time to time until maturity. U.S. Cellular borrowed and repaid amounts under its revolving credit facility in 2014. Neither TDS nor U.S. Cellular borrowed under their revolving credit facilities in 2013 or 2012 except for standby letters of credit.

In certain circumstances, TDS' and U.S. Cellular's interest cost on their revolving credit facilities may be subject to increase if their current credit ratings from nationally recognized credit rating agencies are lowered, and may be subject to decrease if the ratings are raised.

In 2014, certain nationally recognized credit rating agencies downgraded TDS and U.S. Cellular corporate and senior debt credit ratings. After these downgrades, TDS and U.S. Cellular are rated at sub-investment grade. As a result of these downgrades, the commitment fee on the revolving credit facilities increased to 0.30% per annum. The downgrades also increased the interest rate on any borrowings by 0.25% per annum. The revolving credit facilities do not cease to be available nor do the maturity dates accelerate solely as a result of a downgrade in TDS' or U.S. Cellular's credit rating. However, downgrades in TDS' or U.S. Cellular's credit rating could adversely affect their ability to renew the revolving credit facilities or obtain access to other credit facilities in the future.

The maturity date of any borrowings under the TDS and U.S. Cellular revolving credit facilities would accelerate in the event of a change in control.

The following table summarizes the terms of such revolving credit facilities as of December 31, 2014:

| **(Dollars in millions)** | | **TDS** | | **U.S. Cellular** |
|---|---|---|---|---|
| Maximum borrowing capacity | $ | 400.0 | $ | 300.0 |
| Letters of credit outstanding | $ | 0.6 | $ | 17.5 |
| Amount borrowed | $ | - | $ | - |
| Amount available for use | $ | 399.4 | $ | 282.5 |
| Borrowing rate: One-month London Interbank Offered Rate ("LIBOR") plus contractual spread (1) | | 1.92 % | | 1.92 % |
| Sample LIBOR Rate | | 0.17 % | | 0.17 % |
| Contractual spread | | 1.75 % | | 1.75 % |
| Range of commitment fees on amount available for use (2) | | | | |
| Low | | 0.13 % | | 0.13 % |
| High | | 0.30 % | | 0.30 % |
| Agreement date | | December 2010 | | December 2010 |
| Maturity date | | December 2017 | | December 2017 |
| | | | | |
| Fees incurred attributable to the Revolving Credit Facility are as follows: | | | | |
| Fees incurred as a percent of Maximum borrowing capacity for 2014 | | 0.42 % | | 0.42 % |
| Fees incurred, amount | | | | |
| 2014 | $ | 1.7 | $ | 1.3 |
| 2013 | $ | 0.9 | $ | 0.8 |
| 2012 | $ | 1.3 | $ | 1.1 |

(1) Borrowings under the revolving credit facility bear interest at LIBOR plus a contractual spread based on TDS' or U.S. Cellular's credit rating or, at TDS' or U.S. Cellular's option, an alternate "Base Rate" as defined in the revolving credit agreement. TDS and U.S. Cellular may select a borrowing period of either one, two, three or six months (or other period of twelve months or less if requested by TDS or U.S. Cellular and approved by the lenders). If TDS or U.S. Cellular provides notice of intent to borrow the same business day, interest on borrowing is at the Base Rate plus the contractual spread.

(2) The revolving credit facility has commitment fees based on the unsecured senior debt ratings assigned to TDS and U.S. Cellular by certain ratings agencies.

The continued availability of the revolving credit facilities requires TDS and 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. TDS and U.S. Cellular believe they were in compliance as of December 31, 2014 with all covenants and other requirements set forth in the revolving credit facilities.

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 agreement. Pursuant to this subordination agreement, (a) any consolidated funded indebtedness from U.S. Cellular to TDS will be unsecured and (b) any (i) consolidated funded indebtedness from U.S. Cellular to TDS (other than "refinancing indebtedness" as defined in the subordination agreement) in excess of $105,000,000, and (ii) refinancing indebtedness in excess of $250,000,000, will be subordinated and made junior in right of payment to the prior payment in full of obligations to the lenders under U.S. Cellular's revolving credit agreement. As of December 31, 2014, U.S. Cellular had no outstanding consolidated funded indebtedness or refinancing indebtedness that was subordinated to the revolving credit agreement pursuant to the subordination agreement.

In July 2014, TDS and U.S. Cellular entered into amendments to the revolving credit facilities agreements which increased the Consolidated Leverage Ratio (the ratio of Consolidated Funded Indebtedness to Consolidated Earnings before interest, taxes, depreciation and amortization) that the companies are required to maintain. Beginning July 1, 2014, TDS and U.S. Cellular are required to maintain the Consolidated Leverage Ratio at a level not to exceed 3.75 to 1.00 for the period of the four fiscal quarters most recently ended (this was 3.00 to 1.00 prior to July 1, 2014). The terms of the amendment decrease the maximum permitted Consolidated Leverage Ratio beginning January 1, 2016, with further decreases effective July 1, 2016 and January 1, 2017 (and will return to 3.00 to 1.00 at that time). For the twelve months ended December 31, 2014, the actual Consolidated Leverage Ratio was 2.50 to 1.00. Future changes in TDS' and U.S. Cellular's financial condition could negatively impact their ability to meet the financial covenants and requirements in their revolving credit facilities agreements. TDS also has certain other non-material credit facilities from time to time.

At December 31, 2014, TDS had recorded $5.4 million of issuance costs related to the revolving credit facilities which is included in Other assets and deferred charges in the Consolidated Balance Sheet.

**Long Term Financing**

Long-term debt as of December 31, 2014 and 2013 was as follows:

| (Dollars in thousands) | Issuance date | Maturity date | Call date | December 31, 2014 | December 31, 2013 |
|---|---|---|---|---|---|
| **TDS:** | | | | | |
| Unsecured Senior Notes | | | | | |
| 6.625% | March 2005 | March 2045 | March 2010 | $ 116,250 | $ 116,250 |
| 6.875% | November 2010 | November 2059 | November 2015 | 225,000 | 225,000 |
| 7.0% | March 2011 | March 2060 | March 2016 | 300,000 | 300,000 |
| 5.875% | November 2012 | December 2061 | December 2017 | 195,000 | 195,000 |
| Purchase contract at 6.0% | October 2001 | October 2021 | | 1,097 | 1,097 |
| **Total Parent** | | | | 837,347 | 837,347 |
| **Subsidiaries:** | | | | | |
| **U.S. Cellular -** | | | | | |
| Unsecured Senior Notes | | | | | |
| 6.7% | December 2003 and June 2004 | December 2033 | December 2003 | 544,000 | 544,000 |
| Less: 6.7% Unamortized discount | | | | (11,278) | (11,551) |
| | | | | 532,722 | 532,449 |
| 6.95% | May 2011 | May 2060 | May 2016 | 342,000 | 342,000 |
| 7.25% | December 2014 | December 2063 | December 2019 | 275,000 | - |
| Obligation on capital leases | | | | 2,143 | 3,749 |
| **TDS Telecom -** | | | | | |
| Rural Utilities Service (“RUS”) and other notes | | | | 699 | 749 |
| Obligation on capital leases | | | | 768 | 779 |
| **Other -** | | | | | |
| Long-term notes, 3.7% to 4.8% | | Through 2016 | | 3,686 | 4,612 |
| Obligation on capital leases | | | | 29 | 35 |
| **Total Subsidiaries** | | | | 1,157,047 | 884,373 |
| **Total long-term debt** | | | | $ 1,994,394 | $ 1,721,720 |
| **Long-term debt, current** | | | | $ 808 | $ 1,646 |
| **Long-term debt, noncurrent** | | | | $ 1,993,586 | $ 1,720,074 |

TDS may redeem its callable notes and U.S. Cellular may redeem its 6.95% Senior Notes and 7.25% Senior Notes, in whole or in part at any time after the respective call date, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest. U.S. Cellular may redeem the 6.7% Senior Notes, in whole or in part, at any time prior to maturity at a redemption price equal to the greater of (a) 100% of the principal amount of such notes, plus accrued and unpaid interest, or (b) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semi-annual basis at the Treasury Rate plus 30 basis points.

Interest on the notes is payable quarterly on Senior Notes outstanding at December 31, 2014, with the exception of U.S. Cellular's 6.7% note in which interest is payable semi-annually.

Capitalized debt issuance costs for Unsecured Senior Notes totaled $53.9 million and are included in Other assets and deferred charges (a long-term asset account). These costs are amortized over the life of the notes using the effective interest method.

The annual requirements for principal payments on long-term debt are approximately $0.8 million, $3.8 million, $0.1 million, $0.1 million and $0.1 million for the years 2015 through 2019, respectively.

The covenants associated with TDS and its subsidiaries’ long-term debt obligations, among other things, restrict TDS’ ability, subject to certain exclusions, to incur additional liens, enter into sale and leaseback transactions, and sell, consolidate or merge assets.

TDS’ 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 TDS’ credit rating. However, a downgrade in TDS’ credit rating could adversely affect its ability to obtain long-term debt financing in the future.

**Term Loan Facility**

On January 21, 2015, U.S. Cellular entered into a term loan credit facility relating to $225.0 million in debt. The term loan must be drawn in one or more advances by the six month anniversary of the date of the agreement; amounts not drawn by that time will cease to be available. Amounts repaid or prepaid under the term loan facility may not be reborrowed. The term loan is available for general corporate purposes, including working capital, spectrum purchases and capital expenditures. The term loan is unsecured except for a lien on all investments in equity which U.S. Cellular may have in the loan administrative agent, CoBank ACB, subject to certain limitations.

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

The maturity date of term loan would accelerate in the event of a change in control.

The following table summarizes the terms of the term loan facility as of February 25, 2015:

| **(Dollars in millions)** | | |
|---|---|---|
| Maximum borrowing capacity | $ | 225.0 |
| Amount borrowed | $ | - |
| Amount available for use | $ | 225.0 |
| Hypothetical Borrowing rate: One-month London Interbank Offered Rate ("LIBOR") plus contractual spread (1) | | 2.67 % |
| Sample LIBOR Rate | | 0.17 % |
| Contractual spread | | 2.5 % |
| Range of commitment fees on amount available for use (2) | | |
| Low | | 0.13 % |
| High | | 0.30 % |
| Agreement date | | January 21, 2015 |
| Maturity date (3) | | January 21, 2022 |

(1) Borrowings under the term loan credit facility bear interest at LIBOR plus a contractual spread based on U.S. Cellular's credit rating or, at U.S. Cellular's option, an alternate "Base Rate" as defined in the term loan facility.

(2) The term loan credit facility has commitment fees based on the unsecured senior debt ratings assigned to U.S. Cellular by certain ratings agencies.

(3) Principal amounts outstanding on the term loan facility will be due and payable quarterly in equal installments beginning on the last day of the fifth fiscal quarter ending after the agreement date, in an amount equal to 1.25% of the aggregate term loan facility commitment. Any amounts owing under the term loan facility not previously repaid will be due and payable on the maturity date.

The continued availability of the term loan facility requires U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing, that are substantially the same as those in the U.S. Cellular revolving credit facility described above.

In connection with U.S. Cellular's term credit facility, TDS and U.S. Cellular entered into a subordination agreement dated January 21, 2015 together with the administrative agent for the lenders under U.S. Cellular's term loan credit agreement, which is substantially the same as the subordination agreement in the U.S. Cellular revolving credit facility described above. As of February 25, 2015, U.S. Cellular had no outstanding consolidated funded indebtedness or refinancing indebtedness that was subordinated to the term loan facility pursuant to this subordination agreement.

**NOTE 12 EMPLOYEE BENEFIT PLANS**

**Defined Contribution Plans**

TDS sponsors a qualified noncontributory defined contribution pension plan. The plan provides benefits for the employees of TDS Corporate, TDS Telecom and U.S. Cellular. Under this plan, pension costs are calculated separately for each participant and are funded annually. Total pension costs were $16.4 million, $16.2 million and $18.4 million in 2014, 2013 and 2012, respectively. In addition, TDS sponsors a defined contribution retirement savings plan ("401(k)") plan. Total costs incurred from TDS' contributions to the 401(k) plan were $25.3 million, $24.8 million and $25.0 million in 2014, 2013 and 2012, respectively.

TDS also sponsors an unfunded nonqualified deferred supplemental executive retirement plan for certain employees to offset the reduction of benefits caused by the limitation on annual employee compensation under the tax laws.

**Other Post-Retirement Benefits**

TDS sponsors a defined benefit post-retirement plan that provides medical benefits and that covers most of the employees of TDS Corporate, TDS Telecom and the Wireline subsidiaries of TDS Telecom. The plan is contributory, with retiree contributions adjusted annually.

The following amounts are included in Accumulated other comprehensive loss in the Consolidated Balance Sheet before affecting such amounts for income taxes:

| **December 31,** | **2014** | **2013** |
|---|---|---|
| **(Dollars in thousands)** | | |
| Net prior service costs | $ 17,246 | $ 18,833 |
| Net actuarial loss | (8,436) | (20,713) |
| | $ 8,810 | $ (1,880) |

The estimated net actuarial loss and prior service cost gain for the postretirement benefit plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost during 2015 are $0.3 million and $3.4 million, respectively.

The following table reconciles the beginning and ending balances of the benefit obligation and the fair value of plan assets for the other post-retirement benefit plans.

| **December 31,** | **2014** | **2013** |
|---|---|---|
| **(Dollars in thousands)** | | |
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | $ 46,142 | $ 54,568 |
| Service cost | 1,018 | 1,348 |
| Interest cost | 2,255 | 2,137 |
| Plan amendments | (2,057) | - |
| Actuarial (gain) loss | (10,897) | (9,437) |
| Prescription drug subsidy | 264 | - |
| Employee contribution | 2,216 | 2,230 |
| Benefits paid | (4,296) | (4,704) |
| Benefit obligation at end of year | 34,645 | 46,142 |
| Change in plan assets | | |
| Fair value of plan assets at beginning of year | 49,743 | 45,047 |
| Actual return (loss) on plan assets | 3,495 | 6,973 |
| Employee contribution | 2,216 | 2,230 |
| Employer contribution | 166 | 197 |
| Benefits paid | (4,296) | (4,704) |
| Fair value of plan assets at end of year | 51,324 | 49,743 |
| Funded status | $ 16,679 | $ 3,601 |

The funded status identified above is recorded as a component of Other assets and deferred charges in TDS' Consolidated Balance Sheet as of December 31, 2014 and 2013.

The following table sets forth by level within the fair value hierarchy the plans' assets at fair value, as of December 31, 2014 and 2013. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair measurement. A financial instrument's level within the fair value hierarchy is not representative of its expected performance or its overall risk profile, and therefore Level 3 assets are not necessarily higher risk than Level 2 assets or Level 1 assets. There were no Level 3 assets for any years presented.

Mutual funds are valued based on the closing price reported on the active market on which the individual securities are traded. The investment strategy for each type of mutual fund is identified below the table and referenced by number.

**December 31, 2014**

| **(Dollars in thousands)** | **Level 1** | **Level 2** | **Total** |
|---|---|---|---|
| Mutual funds | | | |
| Bond (1) | $ 12,842 | $ - | $ 12,842 |
| International equity (2) | 12,003 | - | 12,003 |
| Money market (3) | 2,053 | - | 2,053 |
| US large cap (4) | 20,191 | - | 20,191 |
| US small cap (5) | 4,234 | - | 4,234 |
| Other | - | 1 | 1 |
| **Total plan assets at fair value** | $ 51,323 | $ 1 | $ 51,324 |

**December 31, 2013**

| **(Dollars in thousands)** | **Level 1** | **Level 2** | **Total** |
|---|---|---|---|
| Mutual funds | | | |
| Bond (1) | $ 12,697 | $ - | $ 12,697 |
| International equity (2) | 9,876 | - | 9,876 |
| Money market (3) | 1,798 | - | 1,798 |
| US large cap (4) | 20,861 | - | 20,861 |
| US small cap (5) | 4,500 | - | 4,500 |
| Other | - | 11 | 11 |
| **Total plan assets at fair value** | $ 49,732 | $ 11 | $ 49,743 |

(1) Bond - The funds seek to achieve a maximum total return, consistent with preservation of capital and prudent investment management by investing in a wide spectrum of fixed income instruments including bonds, debt securities and other similar instruments issued by government and private-sector entities.

(2) International equity - The funds seek to provide long-term capital appreciation by investing in the stocks of companies located outside the United States that are considered to have the potential for above-average capital appreciation.

(3) Money market - The fund seeks as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity by investing in a diversified portfolio of high-quality, dollar-denominated short-term debt securities.

(4) US large cap - The funds seek to track the performance of several benchmark indices that measure the investment return of large-capitalization stocks. The funds attempt to replicate the indices by investing substantially all of their assets in the stocks that make up the various indices in approximately the same proportion as the weighting in the indices.

(5) US small cap - The fund seeks to track the performance of a benchmark index that measures the investment return of small-capitalization stocks. The fund attempts to replicate the index by investing substantially all of its assets in the stocks that make up the index in approximately the same proportion as the weighting in the index.

The following table summarizes how plan assets are invested.

| Investment Category | Target Asset Allocation | Allocation of Plan Assets at December 31, 2014 | 2013 |
|---|---|---|---|
| U.S. equities | 46 % | 47.6 % | 51.0 % |
| International equities | 24 % | 23.4 % | 19.9 % |
| Debt securities | 30 % | 29.0 % | 29.1 % |

The post-retirement benefit fund engages multiple asset managers to ensure proper diversification of the investment portfolio within each asset category. The investment objective is to meet or exceed the rate of return of a performance index comprised of 46% Dow Jones U.S. Total Stock Market Index, 24% FTSE All World (excluding U.S.) Stock Index, and 30% Barclays Capital Aggregate Bond Index. The three-year and five-year average rates of return for TDS' post-retirement benefit fund are 13.26% and 10.30%, respectively.

The post-retirement benefit fund does not hold any debt or equity securities issued by TDS, U.S. Cellular or any related parties.

TDS is not required to set aside current funds for its future retiree health and life insurance benefits. The decision to contribute to the plan assets is based upon several factors, including the funded status of the plan, market conditions, alternative investment opportunities, tax benefits and other circumstances. In accordance with applicable income tax regulations, total accumulated contributions to fund the costs of future retiree medical benefits are restricted to an amount not to exceed 25% of the total accumulated contributions to the trust. An additional contribution equal to a reasonable amortization of the past service cost may be made without regard to the 25% limitation. TDS has not determined whether it will make a contribution to the plan in 2015.

Net periodic benefit cost recorded in the Consolidated Statement of Operations includes the following components:

| Year Ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Service cost | $ 1,018 | $ 1,348 | $ 1,197 |
| Interest cost | 2,255 | 2,137 | 2,297 |
| Expected return on plan assets | (3,402) | (3,065) | (2,995) |
| Amortization of prior service costs (1) | (3,644) | (3,605) | (3,735) |
| Amortization of actuarial losses (2) | 1,287 | 2,452 | 2,517 |
| Net post-retirement cost (benefit) | $ (2,486) | $ (733) | $ (719) |

(1) Based on straight-line amortization over the average time remaining before active employees become fully eligible for plan benefits.

(2) Based on straight-line amortization over the average time remaining before active employees retire.

The following assumptions were used to determine benefit obligations and net periodic benefit cost:

| December 31, | 2014 | 2013 |
|---|---|---|
| **Benefit obligations** | | |
| Discount rate | 4.20 % | 5.00 % |
| | | |
| **Net periodic benefit cost** | | |
| Discount rate | 5.00 % | 4.00 % |
| Expected return on plan assets | 7.00 % | 7.00 % |

The discount rate for 2014 and 2013 was determined using a hypothetical Aa spot yield curve represented by a series of annualized individual spot discount rates from six months to 99 years. The spot rate curve was derived from a direct calculation of the implied forward rate curve based on the included bond cash flows. This yield curve, when populated with projected cash flows that represent the expected timing and amount of TDS plan benefit payments, produces a single effective interest discount rate that is used to measure the plan's liabilities.

The expected rate of return was determined using the target asset allocation for the TDS plan and rate of return expectations for each asset class.

The measurement date for actuarial determination was December 31, 2014. For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits was assumed for 2014 to be 7.8% for plan participants aged 65 and above, and 7.5% for participants under age 65. For all participants the 2014 annual rate of increase is expected to decrease to 5.0% by 2022. The 2013 expected rate of increase was 7.5% for plan participants aged 65 and above, and 7.9% for participants under age 65, decreasing to 5.0% for all participants by 2021.

A 1% increase or decrease in assumed health care cost trend rates would have the following effects as of and for the year ended December 31, 2014:

| | One Percent | |
|---|---|---|
| | **Increase** | **Decrease** |
| **(Dollars in thousands)** | | |
| Effect on total service and interest cost components | $ 25 | $ (23) |
| Effect on post-retirement benefit obligation | $ 423 | $ (393) |

The following estimated future benefit payments, which reflect expected future service, are expected to be paid:

| **Year** | |
|---|---|
| **(Dollars in thousands)** | |
| 2015 | $ 1,687 |
| 2016 | 1,719 |
| 2017 | 1,662 |
| 2018 | 1,652 |
| 2019 | 1,667 |
| 2020-2024 | 9,442 |

## NOTE 13 COMMITMENTS AND CONTINGENCIES

Agreements

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

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

Lease Commitments

TDS and its subsidiaries have leases for certain plant facilities, office space, retail store sites, cell sites, data centers and data-processing equipment which are accounted for as operating leases. Certain leases have renewal options and/or fixed rental increases. Renewal options that are reasonably assured of exercise are included in determining the lease term. Any rent abatements or lease incentives, in addition to fixed rental increases, are included in the calculation of rent expense and calculated on a straight-line basis over the defined lease term.

As of December 31, 2014, future minimum rental payments required under operating leases and rental receipts expected under operating leases that have noncancellable lease terms in excess of one year were as follows:

| (Dollars in thousands) | Operating Leases Future Minimum Rental Payments* | Operating Leases Future Minimum Rental Receipts |
|---|---|---|
| 2015 | $ 155,476 | $ 54,463 |
| 2016 | 139,346 | 43,918 |
| 2017 | 119,384 | 34,619 |
| 2018 | 102,014 | 24,095 |
| 2019 | 86,580 | 12,038 |
| Thereafter | 798,530 | 8,558 |
| Total | $ 1,401,330 | $ 177,691 |

*Includes $88.4 million of future lease payments associated with leases transferred in January 2015 per the second closing of the tower sale. See Note 6 — Acquisitions, Divestitures and Exchanges for additional information.

For 2014, 2013 and 2012, rent expense for noncancellable long-term leases was $177.0 million, $187.4 million and $204.1 million, respectively; and rent expense under cancellable short-term leases was $8.8 million, $12.5 million and $10.4 million, respectively.

Indemnifications

TDS enters into agreements in the normal course of business that provide for indemnification of counterparties. The terms of the indemnifications vary by agreement. The events or circumstances that would require TDS to perform under these indemnities are transaction specific; however, these agreements may require TDS to indemnify the counterparty for costs and losses incurred from litigation or claims arising from the underlying transaction. TDS is unable to estimate the maximum potential liability for these types of indemnifications as the amounts are dependent on the outcome of future events, the nature and likelihood of which cannot be determined at this time. Historically, TDS has not made any significant indemnification payments under such agreements.

Legal Proceedings

TDS is involved or may be involved from time to time in legal proceedings before the FCC, other regulatory authorities, and/or various state and federal courts. If TDS believes that a loss arising from such legal proceedings is probable and can be reasonably estimated, an amount is accrued in the financial statements for the estimated loss. If only a range of loss can be determined, the best estimate within that range is accrued; if none of the estimates within that range is better than another, the low end of the range is accrued. The assessment of the expected outcomes of legal proceedings is a highly subjective process that requires judgments about future events. The legal proceedings are reviewed at least quarterly to determine the adequacy of accruals and related financial statement disclosures. The ultimate outcomes of legal proceedings could differ materially from amounts accrued in the financial statements.

TDS has accrued $0.4 million and $0.3 million with respect to legal proceedings and unasserted claims as of December 31, 2014 and 2013, respectively. TDS has not accrued any amount for legal proceedings if it cannot estimate the amount of the possible loss or range of loss. TDS does not believe that the amount of any contingent loss in excess of the amounts accrued would be material.

## NOTE 14 VARIABLE INTEREST ENTITIES (VIEs)

TDS 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 the VIE losses and right to receive benefits that are significant to the VIE. TDS reviews these criteria initially at the time it enters into agreements and subsequently when reconsideration events occur.

Consolidated VIEs

As of December 31, 2014, TDS holds a variable interest in and consolidates the following VIEs under GAAP:

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

The power to direct the activities that most significantly impact the economic performance of Advantage Spectrum, Aquinas Wireless and King Street Wireless (collectively, the “limited partnerships”) is shared. Specifically, the general partner of these VIEs has the exclusive right to manage, operate and control the limited partnerships and make all decisions to carry on the business of the partnerships; however, the general partner of each partnership needs consent of the limited partner, a TDS 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, TDS has a disproportionate level of exposure to the variability associated with the economic performance of the VIEs, indicating that TDS 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 TDS' Consolidated Balance Sheet.

| **December 31,** | | **2014** | | **2013** |
|---|---|---|---|---|
| **(Dollars in thousands)** | | | | |
| **Assets** | | | | |
| Cash and cash equivalents | $ | 2,588 | $ | 2,076 |
| Other current assets | | 278 | | 1,184 |
| Licenses | | 312,977 | | 310,475 |
| Property, plant and equipment, net | | 10,671 | | 18,600 |
| Other assets and deferred charges | | 60,059 | | 511 |
| Total assets | $ | 386,573 | $ | 332,846 |
| | | | | |
| **Liabilities** | | | | |
| Current liabilities | $ | 110 | $ | 46 |
| Deferred liabilities and credits | | 622 | | 3,139 |
| Total liabilities | $ | 732 | $ | 3,185 |

Other Related Matters

An FCC auction of AWS-3 spectrum licenses, referred to as Auction 97, began in November 2014 and ended in January 2015. TDS participated in Auction 97 indirectly through its interest in Advantage Spectrum. A subsidiary of U.S. Cellular is a limited partner in Advantage Spectrum. Advantage Spectrum qualified as a "designated entity," and thereby was eligible for bid credits with respect to spectrum purchased in Auction 97. To participate in this auction, a $60.0 million deposit was made to the FCC in 2014. Such amount is reflected in Other Assets and Deferred Charges in the Consolidated Balance Sheet. Advantage Spectrum was the provisional winning bidder for 124 licenses for an aggregate bid of $338.3 million, net of its anticipated designated entity discount of 25%. Advantage Spectrum's bid amount, less the initial deposit of $60.0 million, plus certain other charges totaling $2.3 million, are required to be paid to the FCC by March 2, 2015.

Advantage Spectrum, Aquinas Wireless and King Street Wireless were formed to participate in FCC auctions of wireless spectrum and to fund, establish, and provide wireless service with respect to any FCC licenses won in the auctions. As such, these entities have risks similar to those described in the "Risk Factors" in TDS' Annual Report on Form 10-K.

TDS' capital contributions and advances made to its VIEs totaled $60.9 million in the year ended December 31, 2014. In 2013, there were no capital contributions or advances made to VIEs or their general partners that were not VIEs.

TDS may agree to make additional capital contributions and/or advances to Advantage Spectrum, Aquinas Wireless or King Street Wireless and/or to their general partners to provide additional funding for the development of licenses granted in various auctions. TDS 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 TDS will be able to obtain additional financing on commercially reasonable terms or at all to provide such financial support.

The limited partnership agreements of Advantage Spectrum, Aquinas Wireless and King Street Wireless also provide the general partner with a put option whereby the general partner may require the limited partner, a subsidiary of U.S. Cellular, to purchase its interest in the limited partnership. The general partner's put options related to its interests in King Street Wireless and Aquinas Wireless will become exercisable in 2019 and 2020, respectively. The general partner's put options related to its interest in Advantage Spectrum will become exercisable on the fifth and sixth anniversaries of the issuance of any license. The put option price is determined pursuant to a formula that takes into consideration fixed interest rates and the market value of U.S. Cellular's Common Shares. Upon exercise of the put option, the general partner is required to repay borrowings due to U.S. Cellular. If the general partner does not elect to exercise its put option, the general partner may trigger an appraisal process in which the limited partner (a subsidiary of U.S. Cellular) may have the right, but not the obligation, to purchase the general partner's interest in the limited partnership at a price and on other terms and conditions specified in the limited partnership agreement. In accordance with requirements under GAAP, TDS is required to calculate a theoretical redemption value for all of the put options assuming they are exercisable at the end of each reporting period, even though such exercise is not contractually permitted. Pursuant to GAAP, this theoretical redemption value, net of amounts payable to U.S. Cellular for loans and accrued interest thereon made by U.S. Cellular to the general partners the ("net put value"), was $1.2 million and $0.5 million at December 31, 2014 and 2013, respectively. The net put value is recorded as Noncontrolling interests with redemption features in TDS' Consolidated Balance Sheet. Also in accordance with GAAP, changes in the redemption value of the put options, net of interest accrued on the loans, are recorded as a component of Net income attributable to noncontrolling interests, net of tax, in TDS' Consolidated Statement of Operations.

## NOTE 15 NONCONTROLLING INTERESTS

The following schedule discloses the effects of Net income attributable to TDS shareholders and changes in TDS' ownership interest in U.S. Cellular on TDS' equity for 2014, 2013 and 2012:

| **Year Ended December 31,** | **2014** | **2013** | **2012** |
|---|---|---|---|
| **(Dollars in thousands)** | | | |
| Net income (loss) attributable to TDS shareholders | $ (136,355) | $ 141,927 | $ 81,861 |
| Transfer (to) from the noncontrolling interests | | | |
| Change in TDS' Capital in excess of par value from U.S. Cellular's issuance of U.S. Cellular shares | (12,420) | (14,135) | (8,854) |
| Change in TDS' Capital in excess of par value from U.S. Cellular's repurchase of U.S. Cellular shares | 1,296 | 3,370 | 4,789 |
| Change in TDS' Capital in excess of par value from common control transaction | 7,484 | - | - |
| Purchase of ownership in subsidiaries from noncontrolling interests | (1,034) | (123) | 4,397 |
| Net transfers (to) from noncontrolling interests | (4,674) | (10,888) | 332 |
| Change from net income (loss) attributable to TDS shareholders and transfers (to) from noncontrolling interests | $ (141,029) | $ 131,039 | $ 82,193 |

Mandatorily Redeemable Noncontrolling Interests in Finite-Lived Subsidiaries

TDS' 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, where the terms of the underlying partnership 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 TDS in accordance with the respective partnership agreements. The termination dates of these mandatorily redeemable noncontrolling interests range from 2085 to 2113.

The estimated aggregate amount that would be due and payable to settle all of these noncontrolling interests, assuming an orderly liquidation of the finite-lived consolidated partnerships on December 31, 2014, net of estimated liquidation costs, is $3.6 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. TDS currently has no plans or intentions relating to the liquidation of any of the related partnerships prior to their scheduled termination dates. The corresponding carrying value of the mandatorily redeemable noncontrolling interests in finite-lived consolidated partnerships at December 31, 2014 was $3.0 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. Neither the noncontrolling interest holders' share, nor TDS' share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements.

## NOTE 16 COMMON SHAREHOLDERS' EQUITY

### Common Stock

As of December 31, 2014, Series A Common Shares were convertible, on a share for share basis, into Common Shares and 7,178,943 Common Shares were reserved for possible issuance upon conversion of Series A Common Shares.

The following table summarizes the number of Common and Series A Common Shares issued and repurchased.

| (Shares in thousands) | Common Shares | Common Treasury Shares | Series A Common Shares |
|---|---|---|---|
| Balance December 31, 2011 | 125,502 | 24,165 | 7,119 |
| Repurchase of shares | - | 868 | - |
| Conversion of Series A Common Shares | 10 | - | (10) |
| Dividend reinvestment, incentive and compensation plans | - | (392) | 51 |
| Balance December 31, 2012 | 125,512 | 24,641 | 7,160 |
| Repurchase of shares | - | 339 | - |
| Conversion of Series A Common Shares | 33 | - | (33) |
| Dividend reinvestment, incentive and compensation plans | - | (1,026) | 39 |
| Balance December 31, 2013 | 125,545 | 23,954 | 7,166 |
| Repurchase of shares | - | 1,542 | - |
| Conversion of Series A Common Shares | 25 | - | (25) |
| Dividend reinvestment, incentive and compensation plans | - | (646) | 38 |
| Balance December 31, 2014 | 125,570 | 24,850 | 7,179 |

### Tax-Deferred Savings Plan

TDS has reserved 90,341 Common Shares at December 31, 2014, for issuance under the TDS Tax-Deferred Savings Plan, a qualified profit-sharing plan pursuant to Sections 401(a) and 401(k) of the Internal Revenue Code. Participating employees have the option of investing their contributions and TDS' contributions in a TDS Common Share fund, a U.S. Cellular Common Share fund or certain unaffiliated funds.

### Common Share Repurchases

TDS and U.S. Cellular Share Repurchases

On August 2, 2013, the Board of Directors of TDS authorized a $250 million stock repurchase program for the purchase of TDS Common Shares from time to time pursuant to open market purchases, block transactions, private purchases or otherwise, depending on market conditions. This authorization does not have an expiration date. TDS had a prior share repurchase authorization for $250 million that expired on November 19, 2012.

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 these authorizations and prior authorizations, were as follows:

| Year Ended December 31, (Shares and dollar amounts in thousands, except per share amounts) | Number of Shares | | Average Cost Per Share | | Amount |
|---|---|---|---|---|---|
| **2014** | | | | | |
| U.S. Cellular Common Shares | 496 | $ | 38.19 | $ | 18,943 |
| TDS Common Shares | 1,542 | | 25.36 | | 39,096 |
| **2013** | | | | | |
| U.S. Cellular Common Shares | 499 | $ | 37.19 | $ | 18,544 |
| TDS Common Shares | 339 | | 28.60 | | 9,692 |
| **2012** | | | | | |
| U.S. Cellular Common Shares | 571 | $ | 35.11 | $ | 20,045 |
| TDS Common Shares | 868 | | 23.08 | | 20,026 |

**NOTE 17 STOCK-BASED COMPENSATION**

**TDS Consolidated**

The following table summarizes stock-based compensation expense recognized during 2014, 2013 and 2012:

| Year Ended December 31, (Dollars in thousands) | | 2014 | | 2013 | | 2012 |
|---|---|---|---|---|---|---|
| Stock option awards | $ | 15,802 | $ | 12,973 | $ | 20,884 |
| Restricted stock unit awards | | 17,968 | | 15,535 | | 19,025 |
| Deferred compensation bonus and matching stock unit awards | | 690 | | 550 | | 749 |
| Awards under Non-Employee Director compensation plan | | 1,333 | | 1,280 | | 1,213 |
| Total stock-based compensation, before income taxes | | 35,793 | | 30,338 | | 41,871 |
| Income tax benefit | | (13,519) | | (11,459) | | (15,848) |
| Total stock-based compensation expense, net of income taxes | $ | 22,274 | $ | 18,879 | $ | 26,023 |

At December 31, 2014, unrecognized compensation cost for all stock-based compensation awards was $39.0 million and is expected to be recognized over a weighted average period of 2.0 years.

The following table provides a summary of the stock-based compensation expense included in the Consolidated Statement of Operations for the years ended:

| December 31, (Dollars in thousands) | | 2014 | | 2013 | | 2012 |
|---|---|---|---|---|---|---|
| Selling, general and administrative expense | $ | 32,505 | $ | 27,130 | $ | 38,563 |
| Cost of services and products | | 3,288 | | 3,208 | | 3,308 |
| Total stock-based compensation | $ | 35,793 | $ | 30,338 | $ | 41,871 |

TDS' tax benefits realized from the exercise of stock options and other awards totaled $8.6 million in 2014.

**TDS (excluding U.S. Cellular)**

The information in this section relates to stock-based compensation plans using the equity instruments of TDS. Participants in these plans are employees of TDS Corporate and TDS Telecom and Non-employee Directors of TDS. Information related to plans using the equity instruments of U.S. Cellular are shown in the U.S. Cellular section following the TDS section.

Under the TDS Long-Term Incentive Plans, TDS may grant fixed and performance based incentive and non-qualified stock options, restricted stock, restricted stock units, and deferred compensation stock unit awards to key employees. .

TDS had reserved 17,971,000 Common Shares at December 31, 2014 for equity awards granted and to be granted under the TDS Long-Term Incentive Plans in effect. At December 31, 2014, the only types of awards outstanding are fixed non-qualified stock option awards, restricted stock unit awards, and deferred compensation stock unit awards.

TDS has also established a Non-Employee Directors' compensation plan under which it has reserved 167,000 TDS Common Shares at December 31, 2014 for issuance as compensation to members of the Board of Directors who are not employees of TDS.

TDS uses treasury stock to satisfy requirements for shares issued pursuant to its various stock-based compensation plans.

*Long-Term Incentive Plan—Stock Options*—Stock options granted to key employees are exercisable over a specified period not in excess of ten years. Stock options generally vest over periods up to three years from the date of grant. Stock options outstanding at December 31, 2014 expire between 2015 and 2024. However, vested stock options typically expire 30 days after the effective date of an employee's termination of employment for reasons other than retirement. Employees who leave at the age of retirement have 90 days (or one year if they satisfy certain requirements) within which to exercise their vested stock options. The exercise price of options equals the market value of TDS common stock on the date of grant.

TDS estimated the fair value of stock options granted in 2014, 2013 and 2012 using the Black Scholes valuation model and the assumptions shown in the table below:

| | **2014** | **2013** | **2012** |
|---|---|---|---|
| Expected life | 5.8 Years | 5.7 Years | 5.5 Years |
| Expected annual volatility rate | 39.6 % | 41.0 % | 41.1 % |
| Dividend yield | 2.0 % | 2.3 % | 2.4 % |
| Risk-free interest rate | 1.8 % | 1.0 % | 0.9 % |
| Estimated annual forfeiture rate | 2.9 % | 2.9 % | 2.9 % |

Prior to 2013, the fair value of options was recognized as compensation cost using an accelerated attribution method over the requisite service periods of the awards, which was generally the vesting period. Beginning with grants in 2013, stock option awards cliff vest in three years. Therefore, compensation cost is recognized on a straight-line basis over the requisite service period.

A summary of TDS stock options (total and portion exercisable) and changes during the three years ended December 31, 2014, is presented in the tables and narrative below.

| Common Share Options | Number of Options | Weighted Average Exercise Prices | Weighted Average Grant Date Fair Value | Aggregate Intrinsic Value | Weighted Average Remaining Contractual Life (in years) |
|---|---|---|---|---|---|
| Outstanding at December 31, 2011 | 7,216,000 | $ 33.89 | | | |
| (4,865,000 exercisable) | | 36.67 | | | |
| Granted | 1,702,000 | 20.79 | $ 6.28 | | |
| Exercised | (1,000) | 20.65 | | $ 4,000 | |
| Forfeited | (106,000) | 23.81 | | | |
| Expired | (298,000) | 30.12 | | | |
| Outstanding at December 31, 2012 | 8,513,000 | $ 31.53 | | | |
| (5,782,000 exercisable) | | 35.12 | | | |
| Granted | 1,259,000 | 22.60 | $ 7.01 | | |
| Exercised | (683,000) | 25.33 | | $ 2,450,000 | |
| Forfeited | (81,000) | 23.75 | | | |
| Expired | (228,000) | 34.10 | | | |
| Outstanding at December 31, 2013 | 8,780,000 | $ 30.74 | | | |
| (6,160,000 exercisable) | | 34.13 | | | |
| Granted | 930,000 | 26.83 | $ 8.66 | | |
| Exercised | (40,000) | 21.28 | | $ 174,000 | |
| Forfeited | (73,000) | 23.05 | | | |
| Expired | (457,000) | 34.55 | | | |
| Outstanding at December 31, 2014 | 9,140,000 | $ 30.25 | | $ 9,651,000 | 5.6 |
| (6,487,000 exercisable) | | $ 32.93 | | $ 4,143,000 | 4.5 |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between TDS' closing stock prices and the exercise price, multiplied by the number of in-the-money options) that was received by the option holders upon exercise or that would have been received by option holders had all options been exercised on December 31, 2014.

*Long-Term Incentive Plans—Restricted Stock Units*—TDS also grants restricted stock unit awards to key employees. Each outstanding restricted stock unit is convertible into one Common Share Award. The restricted stock unit awards currently outstanding were granted in 2013 and 2014 and will vest in May 2016 and 2017, respectively.

TDS estimates the fair value of restricted stock units by reducing the grant-date price of TDS' shares by the present value of the dividends expected to be paid on the underlying shares during the requisite service period, discounted at the appropriate risk-free interest rate, since employees are not entitled to dividends declared on the underlying shares while the restricted stock or RSU is unvested. The fair value is then recognized as compensation cost on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

A summary of TDS nonvested restricted stock units and changes during the year ended December 31, 2014 is presented in the table below:

| Common Restricted Stock Units | Number | Weighted Average Grant Date Fair Value |
|---|---|---|
| Nonvested at December 31, 2013 | 663,000 | $ 20.43 |
| Granted | 355,000 | $ 25.26 |
| Vested | (300,000) | $ 19.68 |
| Forfeited | (26,000) | $ 21.31 |
| Nonvested at December 31, 2014 | 692,000 | $ 23.20 |

The total fair values as of the respective vesting dates of restricted stock units vested during 2014, 2013 and 2012 were $7.5 million, $5.8 million and $3.4 million, respectively. The weighted average grant date fair value of restricted stock units granted in 2014, 2013 and 2012 was $25.26, $21.09 and $19.62, respectively.

*Long-Term Incentive Plans—Deferred Compensation Stock Units*—Certain TDS employees may elect to defer receipt of all or a portion of their annual bonuses and to receive a company matching contribution on the amount deferred. All bonus compensation that is deferred by employees electing to participate is immediately vested and is deemed to be invested in TDS Common Share units. The amount of TDS' matching contribution depends on the portion of the annual bonus that is deferred. Participants receive a 25% stock unit match for amounts deferred up to 50% of their total annual bonus and a 33% match for amounts that exceed 50% of their total annual bonus; such matching contributions also are deemed to be invested in TDS Common Share units.

The total fair values of deferred compensation stock units that vested during 2014, 2013 and 2012 were $0.1 million, $0.1 million and $0.1 million, respectively. The weighted average grant date fair value of deferred compensation stock units granted in 2014, 2013 and 2012 was $23.27, $21.99 and $24.18, respectively. As of December 31, 2014, there were 249,000 vested but unissued deferred compensation stock units valued at $6.3 million.

*Compensation of Non-Employee Directors*—TDS issued 33,000, 33,000 and 22,000 Common Shares under its Non-Employee Director plan in 2014, 2013 and 2012, respectively.

*Dividend Reinvestment Plans ("DRIP")*—TDS had reserved 1,028,000 Common Shares at December 31, 2014, for issuance under Automatic Dividend Reinvestment and Stock Purchase Plans and 141,000 Series A Common Shares for issuance under the Series A Common Share Automatic Dividend Reinvestment Plan. These plans enabled holders of TDS' Common Shares and Preferred Shares to reinvest cash dividends in Common Shares and holders of Series A Common Shares to reinvest cash dividends in Series A Common Shares. The purchase price of the shares is 95% of the market value, based on the average of the daily high and low sales prices for TDS' Common Shares on the New York Stock Exchange for the ten trading days preceding the date on which the purchase is made. These plans are considered non-compensatory plans, therefore no compensation expense is recognized for stock issued under these plans.

**U.S. Cellular**

The information in this section relates to stock-based compensation plans using the equity instruments of U.S. Cellular. Participants in these plans are employees of U.S. Cellular and Non-employee Directors of U.S. Cellular. Information related to plans using the equity instruments of TDS are shown in the previous section.

U.S. Cellular has established the following stock-based compensation plans: long-term incentive plans and a Non-Employee Director compensation plan.

Under the U.S. Cellular Long-Term Incentive Plans, U.S. Cellular may grant fixed and performance based incentive and non-qualified stock options, restricted stock, restricted stock units, and deferred compensation stock unit awards to key employees. At December 31, 2014, the only types of awards outstanding are fixed non-qualified stock option awards, restricted stock unit awards, and deferred compensation stock unit awards.

On June 25, 2013, U.S. Cellular paid a special cash dividend 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, restricted stock unit awards and deferred compensation stock units were equitably adjusted for the special cash dividend. The impact of such adjustments are fully reflected for all years presented. See Note 5 – Earnings Per Share for additional information.

At December 31, 2014, U.S. Cellular had reserved 9,782,000 Common Shares for equity awards granted and to be granted under the Long-Term Incentive Plans.

U.S. Cellular also has established a Non-Employee Director compensation plan under which it has reserved 197,000 Common Shares at December 31, 2014 for issuance as compensation to members of the Board of Directors who are not employees of U.S. Cellular or TDS.

U.S. Cellular uses treasury stock to satisfy requirements for Common Shares issued pursuant to its various stock-based compensation plans.

*Long-Term Incentive Plans—Stock Options*—Stock options granted to key employees are exercisable over a specified period not in excess of ten years. Stock options generally vest over a period of three years from the date of grant. Stock options outstanding at December 31, 2014 expire between 2015 and 2024. However, vested stock options typically expire 30 days after the effective date of an employee's termination of employment for reasons other than retirement. Employees who leave at the age of retirement have 90 days (or one year if they satisfy certain requirements) within which to exercise their vested stock options. The exercise price of options equals the market value of U.S. Cellular Common Shares on the date of grant.

U.S. Cellular estimated the fair value of stock options granted during 2014, 2013, and 2012 using the Black-Scholes valuation model and the assumptions shown in the table below.

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Expected life | 4.5 years | 4.6-9.0 years | 4.5 years |
| Expected annual volatility rate | 28.0%-28.1% | 29.2%-39.6% | 40.7%-42.6% |
| Dividend yield | 0% | 0% | 0% |
| Risk-free interest rate | 1.4%-1.5% | 0.7%-2.4% | 0.5%-0.9 |
| Estimated annual forfeiture rate | 9.4% | 0.0%-8.1% | 0.0%-9.1% |

The fair value of options is recognized as compensation cost using an accelerated attribution method over the requisite service periods of the awards, which is generally the vesting period.

A summary of U.S. Cellular stock options outstanding (total and portion exercisable) and changes during the three years ended December 31, 2014, is presented in the table below:

| Common Share Options | Number of Options | Weighted Average Exercise Price | Weighted Average Grant Date Fair Value | Aggregate Intrinsic Value | Weighted Average Remaining Contractual Life (in years) |
|---|---|---|---|---|---|
| Outstanding at December 31, 2011 | 2,834,000 | $ 43.07 | | | |
| (1,533,000 exercisable) | | 46.23 | | | |
| Granted | 677,000 | 34.91 | $ 12.61 | | |
| Exercised | (47,000) | 29.82 | | $ 205,000 | |
| Forfeited | (117,000) | 38.45 | | | |
| Expired | (133,000) | 46.17 | | | |
| Outstanding at December 31, 2012 | 3,214,000 | $ 41.58 | | | |
| (1,928,000 exercisable) | | 43.99 | | | |
| Granted | 1,213,000 | 32.45 | $ 11.53 | | |
| Exercised | (892,000) | 34.78 | | $ 6,787,000 | |
| Forfeited | (574,000) | 34.17 | | | |
| Expired | (247,000) | 48.35 | | | |
| Outstanding at December 31, 2013 | 2,714,000 | $ 42.22 | | | |
| (1,359,000 exercisable) | | 46.91 | | | |
| Granted | 1,116,000 | 41.21 | $ 10.68 | | |
| Exercised | (233,000) | 32.80 | | $ 1,966,000 | |
| Forfeited | (144,000) | 35.09 | | | |
| Expired | (65,000) | 45.68 | | | |
| Outstanding at December 31, 2014 | 3,388,000 | $ 41.51 | | $ 7,495,000 | 6.70 |
| (1,586,000 exercisable) | | $ 45.28 | | $ 2,984,000 | 4.40 |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between U.S. Cellular's closing stock price and the exercise price multiplied by the number of in-the-money options) that was received by the option holders upon exercise or that would have been received by option holders had all options been exercised on December 31, 2014.

*Long-Term Incentive Plans—Restricted Stock Units*—U.S. Cellular grants restricted stock unit awards, which generally vest after three years, to key employees.

U.S. Cellular estimates the fair value of restricted stock units based on the closing market price of U.S. Cellular shares on the date of grant. The fair value is then recognized as compensation cost on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

A summary of U.S. Cellular nonvested restricted stock units at December 31, 2014 and changes during the year then ended is presented in the table below:

| **Common Restricted Stock Units** | **Number** | **Weighted Average Grant Date Fair Value** |
|---|---|---|
| Nonvested at December 31, 2013 | 1,170,000 | $ 36.46 |
| Granted | 370,000 | 41.24 |
| Vested | (274,000) | 41.92 |
| Forfeited | (124,000) | 34.38 |
| Nonvested at December 31, 2014 | 1,142,000 | $ 35.60 |

The total fair value of restricted stock units that vested during 2014, 2013 and 2012 was $11.1 million, $8.8 million and $8.9 million, respectively, as of the respective vesting dates. The weighted average grant date fair value of restricted stock units granted in 2014, 2013 and 2012 was $41.24, $32.06 and $34.09, respectively.

*Long-Term Incentive Plans—Deferred Compensation Stock Units*—Certain U.S. Cellular employees may elect to defer receipt of all or a portion of their annual bonuses and to receive a company matching contribution on the amount deferred. All bonus compensation that is deferred by employees electing to participate is immediately vested and is deemed to be invested in U.S. Cellular Common Share stock units. The amount of U.S. Cellular's matching contribution depends on the portion of the annual bonus that is deferred. Participants receive a 25% match for amounts deferred up to 50% of their total annual bonus and a 33% match for amounts that exceed 50% of their total annual bonus; such matching contributions also are deemed to be invested in U.S. Cellular Common Share stock units.

There were no deferred compensation stock units granted or that vested during 2014. The total fair value of deferred compensation stock units that vested during 2013 and 2012 was less than $0.1 million in each year. The weighted average grant date fair value of deferred compensation stock units granted in 2013 and 2012 was $31.50 and $36.34, respectively. As of December 31, 2014, there were no vested or unissued deferred compensation stock units outstanding.

*Compensation of Non-Employee Directors*—U.S. Cellular issued 14,200, 13,000 and 7,600 Common Shares in 2014, 2013 and 2012, respectively, under its Non-Employee Director compensation plan.

## NOTE 18 BUSINESS SEGMENT INFORMATION

U.S. Cellular and TDS Telecom are billed for all services they receive from TDS, consisting primarily of information processing, accounting and finance, and general management services. Such billings are based on expenses specifically identified to U.S. Cellular and TDS Telecom and on allocations of common expenses. Management believes the method used to allocate common expenses is reasonable and that all expenses and costs applicable to U.S. Cellular and TDS Telecom are reflected in the accompanying business segment information on a basis that is representative of what they would have been if U.S. Cellular and TDS Telecom operated on a stand-alone basis.

Financial data for TDS' reportable segments for 2014, 2013 and 2012, is as follows.

| | | TDS Telecom | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Year Ended or as of December 31, 2014** | **U.S. Cellular** | **Wireline** | **Cable** | **HMS** | **TDS Telecom Eliminations** | **TDS Telecom Total** | **Corporate, Eliminations and Other** | **Total** |
| **(Dollars in thousands)** | | | | | | | | |
| **Operating revenues** | | | | | | | | |
| Service | $ 3,397,937 | $ 714,586 | $ 116,855 | $ 109,766 | $ (3,697) | $ 937,510 | $ (6,793) | $ 4,328,654 |
| Equipment and product sales | 494,810 | 1,836 | - | 148,966 | - | 150,802 | 35,172 | 680,784 |
| Total operating revenues | 3,892,747 | 716,422 | 116,855 | 258,732 | (3,697) | 1,088,312 | 28,379 | 5,009,438 |
| Cost of services (excluding Depreciation, amortization and accretion expense reported below) | 769,911 | 256,878 | 54,265 | 77,392 | (3,504) | 385,031 | 9,716 | 1,164,658 |
| Cost of equipment and products | 1,192,669 | 2,336 | - | 126,362 | - | 128,698 | 25,444 | 1,346,811 |
| Selling, general and administrative | 1,591,914 | 189,956 | 36,175 | 53,020 | (193) | 278,958 | (5,065) | 1,865,807 |
| Depreciation, amortization and accretion | 605,997 | 169,044 | 23,643 | 26,912 | - | 219,599 | 10,936 | 836,532 |
| Loss on impairment of assets | - | - | - | 84,000 | - | 84,000 | 3,802 | 87,802 |
| (Gain) loss on asset disposals, net | 21,469 | 2,091 | 2,482 | 181 | - | 4,754 | 308 | 26,531 |
| (Gain) loss on sale of business and other exit costs, net | (32,830) | (2,357) | - | - | - | (2,357) | 19,341 | (15,846) |
| (Gain) loss on license sales and exchanges | (112,993) | - | - | - | - | - | - | (112,993) |
| **Operating income (loss)** | (143,390) | 98,474 | 290 | (109,135) | - | (10,371) | (36,103) | (189,864) |
| Equity in earnings of unconsolidated entities | 129,764 | 8 | - | - | - | 8 | 2,193 | 131,965 |
| Interest and dividend income | 12,148 | 2,396 | 8 | 26 | - | 2,430 | 2,379 | 16,957 |
| Interest expense | (57,386) | 2,695 | 95 | (1,602) | - | 1,188 | (55,199) | (111,397) |
| Other, net | 160 | (32) | (1) | 12 | - | (21) | (24) | 115 |
| **Income (loss) before income taxes** | (58,704) | 103,541 | 392 | (110,699) | - | (6,766) | (86,754) | (152,224) |
| **Add back:** | | | | | | | | |
| Depreciation, amortization and accretion | 605,997 | 169,044 | 23,643 | 26,912 | - | 219,599 | 10,936 | 836,532 |
| Loss on impairment of assets | - | - | - | 84,000 | - | 84,000 | 3,802 | 87,802 |
| (Gain) loss on sale of business and other exit costs, net | (32,830) | (2,357) | - | - | - | (2,357) | 19,341 | (15,846) |
| (Gain) loss on license sales and exchanges | (112,993) | - | - | - | - | - | - | (112,993) |
| Interest expense | 57,386 | (2,695) | (95) | 1,602 | - | (1,188) | 55,199 | 111,397 |
| **Adjusted income before income taxes** | $ 458,856 | $ 267,533 | $ 23,940 | $ 1,815 | $ - | $ 293,288 | $ 2,524 | $ 754,668 |
| | | | | | | | | |
| Investments in unconsolidated entities | $ 283,014 | $ 3,803 | $ - | $ - | $ - | $ 3,803 | $ 34,912 | $ 321,729 |
| Total assets | $ 6,487,268 | $ 1,419,478 | $ 563,585 | $ 268,972 | $ - | $ 2,252,035 | $ 167,636 | $ 8,906,939 |
| Capital expenditures | $ 557,615 | $ 135,805 | $ 35,640 | $ 36,618 | $ - | $ 208,063 | $ 4,899 | $ 770,577 |

| Year Ended or as of December 31, 2013 | U.S. Cellular | TDS Telecom: Wireline | TDS Telecom: Cable | TDS Telecom: HMS | TDS Telecom: TDS Telecom Eliminations | TDS Telecom: TDS Telecom Total | Corporate, Eliminations and Other Reconciling Items | Total |
|---|---|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | | | | | | | | |
| **Operating revenues** | | | | | | | | |
| Service | $ 3,594,773 | $ 723,372 | $ 35,883 | $ 94,875 | $ (1,063) | $ 853,067 | $ (4,349) | $ 4,443,491 |
| Equipment and product sales | 324,063 | 3,195 | - | 90,741 | - | 93,936 | 39,746 | 457,745 |
| Total operating revenues | 3,918,836 | 726,567 | 35,883 | 185,616 | (1,063) | 947,003 | 35,397 | 4,901,236 |
| Cost of services (excluding Depreciation, amortization and accretion reported below) | 763,435 | 266,635 | 17,274 | 60,423 | (1,000) | 343,332 | 11,416 | 1,118,183 |
| Cost of equipment and products | 999,000 | 3,831 | - | 75,991 | - | 79,822 | 28,311 | 1,107,133 |
| Selling, general and administrative | 1,677,395 | 220,097 | 11,054 | 44,945 | (63) | 276,033 | (5,650) | 1,947,778 |
| Depreciation, amortization and accretion | 803,781 | 170,868 | 7,571 | 24,262 | - | 202,701 | 11,595 | 1,018,077 |
| (Gain) loss on asset disposals, net | 30,606 | 130 | 28 | 125 | - | 283 | (48) | 30,841 |
| (Gain) loss on sale of business and other exit costs, net | (246,767) | - | - | - | - | - | (53,889) | (300,656) |
| (Gain) loss on license sales and exchanges | (255,479) | - | - | - | - | - | - | (255,479) |
| **Operating income (loss)** | 146,865 | 65,006 | (44) | (20,130) | - | 44,832 | 43,662 | 235,359 |
| Equity in earnings of unconsolidated entities | 131,949 | 19 | - | - | - | 19 | 746 | 132,714 |
| Interest and dividend income | 3,961 | 1,759 | 2 | 63 | - | 1,824 | 3,307 | 9,092 |
| Gain (loss) on investments | 18,556 | 830 | - | - | - | 830 | (4,839) | 14,547 |
| Interest expense | (43,963) | 3,265 | (74) | (1,626) | - | 1,565 | (56,413) | (98,811) |
| Other, net | 288 | (214) | - | 29 | - | (185) | (140) | (37) |
| **Income (loss) before income taxes** | 257,656 | 70,665 | (116) | (21,664) | - | 48,885 | (13,677) | 292,864 |
| **Add back:** | | | | | | | | |
| Depreciation, amortization and accretion | 803,781 | 170,868 | 7,571 | 24,262 | - | 202,701 | 11,595 | 1,018,077 |
| (Gain) loss on sale of business and other exit costs, net | (246,767) | - | - | - | - | - | (53,889) | (300,656) |
| (Gain) loss on license sales and exchanges | (255,479) | - | - | - | - | - | - | (255,479) |
| Gain (loss) on investments | (18,556) | (830) | - | - | - | (830) | 4,839 | (14,547) |
| Interest expense | 43,963 | (3,265) | 74 | 1,626 | - | (1,565) | 56,413 | 98,811 |
| **Adjusted income before income taxes** | $ 584,598 | $ 237,438 | $ 7,529 | $ 4,224 | $ - | $ 249,191 | $ 5,281 | $ 839,070 |
| | | | | | | | | |
| Investments in unconsolidated entities | $ 265,585 | $ 3,809 | $ - | $ - | $ - | $ 3,809 | $ 32,378 | $ 301,772 |
| Total assets | $ 6,445,708 | $ 1,452,502 | $ 278,969 | $ 328,397 | $ - | $ 2,059,868 | $ 398,571 | $ 8,904,147 |
| Capital expenditures | $ 737,501 | $ 140,009 | $ 8,375 | $ 16,474 | $ - | $ 164,858 | $ 7,301 | $ 909,660 |

| Year Ended or as of December 31, 2012 | U.S. Cellular | TDS Telecom: Wireline | TDS Telecom: HMS | TDS Telecom: TDS Telecom Eliminations | TDS Telecom: TDS Telecom Total | Corporate, Eliminations and Other Reconciling Items | Total |
|---|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | | | | | | | |
| **Operating revenues** | | | | | | | |
| Service | $ 4,098,856 | $ 738,216 | $ 77,096 | $ (252) | $ 815,060 | $ 38,687 | $ 4,952,603 |
| Equipment and product sales | 353,228 | 3,532 | 35,914 | - | 39,446 | - | 392,674 |
| Total operating revenues | 4,452,084 | 741,748 | 113,010 | (252) | 854,506 | 38,687 | 5,345,277 |
| Cost of services (excluding Depreciation, amortization and accretion reported below) | 946,805 | 270,333 | 46,836 | (252) | 316,917 | 10,903 | 1,274,625 |
| Cost of equipment and products | 935,947 | 3,732 | 28,945 | - | 32,677 | 29,321 | 997,945 |
| Selling, general and administrative | 1,764,933 | 235,716 | 34,193 | - | 269,909 | (941) | 2,033,901 |
| Depreciation, amortization and accretion | 608,633 | 172,526 | 20,568 | - | 193,094 | 11,899 | 813,626 |
| Loss on impairment of assets | - | - | - | - | - | 515 | 515 |
| (Gain) loss on asset disposals, net | 18,088 | 1,020 | 108 | - | 1,128 | 525 | 19,741 |
| (Gain) loss on sale of business and other exit costs, net | 21,022 | 39 | - | - | 39 | - | 21,061 |
| **Operating income (loss)** | 156,656 | 58,382 | (17,640) | - | 40,742 | (13,535) | 183,863 |
| Equity in earnings of unconsolidated entities | 90,364 | 10 | - | - | 10 | 2,493 | 92,867 |
| Interest and dividend income | 3,644 | 3,085 | 25 | - | 3,110 | 2,494 | 9,248 |
| Gain (loss) on investments | (3,718) | - | - | - | - | - | (3,718) |
| Interest expense | (42,393) | 2,674 | (1,160) | - | 1,514 | (45,866) | (86,745) |
| Other, net | 500 | (353) | (1) | - | (354) | 574 | 720 |
| **Income (loss) before income taxes** | 205,053 | 63,798 | (18,776) | - | 45,022 | (53,840) | 196,235 |
| **Add back:** | | | | | | | |
| Depreciation, amortization and accretion | 608,633 | 172,526 | 20,568 | - | 193,094 | 11,899 | 813,626 |
| Loss on impairment of assets | - | - | - | - | - | 515 | 515 |
| (Gain) loss on sale of business and other exit costs, net | 21,022 | 39 | - | - | 39 | - | 21,061 |
| Gain (loss) on investments | 3,718 | - | - | - | - | - | 3,718 |
| Interest expense | 42,393 | (2,674) | 1,160 | - | (1,514) | 45,866 | 86,745 |
| **Adjusted income before income taxes** | $ 880,819 | $ 233,689 | $ 2,952 | $ - | $ 236,641 | $ 4,440 | $ 1,121,900 |
| | | | | | | | |
| Investments in unconsolidated entities | $ 144,531 | $ 3,809 | $ - | $ - | $ 3,809 | $ 31,581 | $ 179,921 |
| Total assets | $ 6,587,450 | $ 1,519,698 | $ 267,798 | $ - | $ 1,787,496 | $ 248,954 | $ 8,623,900 |
| Capital expenditures | $ 836,748 | $ 158,580 | $ 15,344 | $ - | $ 173,924 | $ (6,051) | $ 1,004,621 |

Adjusted income before income taxes is a segment measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. Adjusted income before income taxes is defined as Income (loss) before income taxes, adjusted for the items set forth in the reconciliation above. Adjusted income before income taxes excludes these items in order to show operating results on a more comparable basis from period to period. From time to time, TDS may also exclude other items from adjusted income before income taxes if such items help reflect operating results on a more comparable basis. TDS does not intend to imply that any of such items that are excluded are non-recurring, infrequent or unusual; such items may occur in the future. TDS believes Adjusted income before income taxes is a useful measure of TDS' operating results before significant recurring non-cash charges, discrete gains and losses and financing charges (Interest expense).

## NOTE 19 SUPPLEMENTAL CASH FLOW DISCLOSURES

Following are supplemental cash flow disclosures regarding interest paid and income taxes paid.

| Year Ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Interest paid | $ 108,510 | $ 96,241 | $ 88,208 |
| Income taxes paid (refunded) | 48,876 | 175,629 | (62,042) |

Following are supplemental cash flow disclosures regarding transactions related to stock-based compensation awards. In certain situations, TDS and U.S. Cellular withhold shares that are issuable upon the exercise of stock options or the vesting of restricted shares to cover, and with a value equivalent to, the exercise price and/or the amount of taxes required to be withheld from the stock award holder at the time of the exercise or vesting. TDS and U.S. Cellular then pay the amount of the required tax withholdings to the taxing authorities in cash.

**TDS:**

| Year Ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Common Shares withheld | 109,061 | 265,748 | 49,840 |
| Special Common Shares withheld | - | - | 1,381 |
| | | | |
| Aggregate value of Common Shares withheld | $ 2,751 | $ 7,639 | $ 1,102 |
| Aggregate value of Special Common Shares withheld | $ - | $ - | $ 33 |
| | | | |
| Cash receipts upon exercise of stock options | 732 | 12,092 | 16 |
| Cash disbursements for payment of taxes | (2,751) | (2,438) | (1,135) |
| Net cash receipts (disbursements) from exercise of stock options and vesting of other stock awards | $ (2,019) | $ 9,654 | $ (1,119) |

**U.S. Cellular:**

| Year Ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Common Shares withheld | 163,355 | 606,582 | 92,846 |
| | | | |
| Aggregate value of Common Shares withheld | $ 6,868 | $ 25,179 | $ 3,604 |
| | | | |
| Cash receipts upon exercise of stock options | 5,166 | 10,468 | 900 |
| Cash disbursements for payment of taxes | (4,336) | (4,684) | (3,105) |
| Net cash receipts (disbursements) from exercise of stock options and vesting of other stock awards | $ 830 | $ 5,784 | $ (2,205) |

Under the American Recovery and Reinvestment Act of 2009 ("the Recovery Act"), TDS Telecom was awarded $105.1 million in federal grants and will provide $30.9 million of its own funds to complete 44 projects to provide broadband access in unserved areas. TDS Telecom received $15.3 million, $41.9 million, and $16.7 million in grants in 2014, 2013 and 2012, respectively. TDS Telecom has received cumulative grants of $78.9 million as of December 31, 2014. These funds reduced the carrying amount of the assets to which they relate. TDS Telecom had recorded $14.2 million and $23.6 million in grants receivable at December 31, 2014 and 2013, respectively. These amounts were included as a component of Accounts receivable, Other, in the Consolidated Balance Sheet.

On September 27, 2012, the FCC conducted a single round, sealed bid, reverse auction to award up to $300 million in one-time Mobility Fund Phase I support to successful bidders that commit to provide 3G, or better, wireless service in areas designated as unserved by the FCC. This auction was designated by the FCC as Auction 901. U.S. Cellular and several of its wholly-owned subsidiaries participated in 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 when received reduce the carrying amount of the assets to which they relate or offset operating expenses. In connection with these winning bids, in June 2013, U.S. Cellular provided $17.4 million letters of credit to the FCC, of which the entire amount remained outstanding as of December 31, 2014. U.S. Cellular has received $13.4 million in support funds as of December 31, 2014, of which $1.9 million is included as a component of Other assets and deferred charges in the Consolidated Balance Sheet and $11.5 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.

## NOTE 20 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following persons are partners of Sidley Austin LLP, the principal law firm of TDS and its subsidiaries: Walter C.D. Carlson, a trustee and beneficiary of a voting trust that controls TDS, the non-executive Chairman of the Board and member of the Board of Directors of TDS and a director of U.S. Cellular, a subsidiary of TDS; William S. DeCarlo, the General Counsel of TDS and an Assistant Secretary of TDS and certain subsidiaries of TDS; and Stephen P. Fitzell, the General Counsel of U.S. Cellular and TDS Telecommunications Corporation and an Assistant Secretary of certain subsidiaries of TDS. Walter C.D. Carlson does not provide legal services to TDS or its subsidiaries. TDS, U.S. Cellular and their subsidiaries incurred legal costs from Sidley Austin LLP of $15.4 million in 2014, $17.6 million in 2013 and $13.6 million in 2012.

The Audit Committee of the Board of Directors of TDS is responsible for the review and evaluation of all related-party transactions as such term is defined by the rules of the New York Stock Exchange.

**REPORTS OF MANAGEMENT**

**Management's Responsibility for Financial Statements**

Management of Telephone and Data Systems, Inc. has the responsibility for preparing the accompanying consolidated financial statements and for their integrity and objectivity. The statements were prepared in accordance with accounting principles generally accepted in the United States of America and, in management's opinion, were fairly presented. The financial statements included amounts that were based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the financial statements.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited these consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and has expressed herein its unqualified opinion on these financial statements.

| /s/ LeRoy T. Carlson, Jr. | /s/ Douglas D. Shuma |
| --- | --- |
| LeRoy T. Carlson, Jr.<br>President and<br>Chief Executive Officer<br>(principal executive officer) | Douglas D. Shuma<br>Senior Vice President and Controller<br>(principal financial officer and principal accounting officer) |

**Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. TDS' internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP"). TDS' internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and, where required, the Board of Directors of the issuer; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the issuer's assets that could have a material effect on the interim or annual consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of TDS' management, including its principal executive officer and principal financial officer, TDS conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2014, based on the criteria established in the 2013 version of *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has concluded that TDS maintained effective internal control over financial reporting as of December 31, 2014 based on criteria established in the 2013 version of *Internal Control — Integrated Framework* issued by the COSO.

The effectiveness of TDS' internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in the firm's report included herein.

| /s/ LeRoy T. Carlson, Jr. | /s/ Douglas D. Shuma |
| --- | --- |
| LeRoy T. Carlson, Jr.<br>President and<br>Chief Executive Officer<br>(principal executive officer) | Douglas D. Shuma<br>Senior Vice President and Controller<br>(principal financial officer and principal<br>accounting officer) |

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Telephone and Data Systems, Inc.:

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows present fairly, in all material respects, the financial position of Telephone and Data Systems, Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, based on our audit, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We did not audit the financial statements of Los Angeles SMSA Limited Partnership, a 5.5% owned entity accounted for by the equity method of accounting. The consolidated financial statements of Telephone and Data Systems, Inc. reflect an investment in this partnership of $123,600,000 and $112,200,000 as of December 31, 2014 and 2013, respectively, and equity earnings of $71,800,000, $78,400,000 and $67,200,000 for each of the three years in the period ended December 31, 2014. The financial statements of Los Angeles SMSA Limited Partnership were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements expressed herein, insofar as it relates to the amounts included for Los Angeles SMSA Limited Partnership, is based solely on the report of the other auditors. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Chicago, Illinois
February 25, 2015