

EXHIBIT 5

AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

PETITION OF MCDANIEL TELEPHONE  
COMPANY D/B/A TDS TELECOM TO  
RECEIVE SUPPORT FROM THE STATE  
UNIVERSAL COMMUNICATIONS SERVICES  
PROGRAM – EXHIBIT 5 – COVER

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

Year Ended December 31,	2015	2014	2013
(Dollars and shares in thousands, except per share amounts)			
<b>Operating revenues</b>			
Service	\$ 4,321,969	\$ 4,328,654	\$ 4,443,491
Equipment and product sales	854,272	680,784	457,745
Total operating revenues	<u>5,176,241</u>	<u>5,009,438</u>	<u>4,901,236</u>
<b>Operating expenses</b>			
Cost of services (excluding Depreciation, amortization and accretion reported below)	1,190,910	1,164,658	1,118,183
Cost of equipment and products	1,224,031	1,346,811	1,107,133
Selling, general and administrative	1,780,463	1,865,807	1,947,778
Depreciation, amortization and accretion	844,361	836,532	1,018,077
Loss on impairment of assets	-	87,802	-
(Gain) loss on asset disposals, net	22,176	26,531	30,841
(Gain) loss on sale of business and other exit costs, net	(135,887)	(15,846)	(300,656)
(Gain) loss on license sales and exchanges	(146,884)	(112,993)	(255,479)
Total operating expenses	<u>4,779,170</u>	<u>5,199,302</u>	<u>4,665,877</u>
<b>Operating income (loss)</b>	<b>397,071</b>	<b>(189,864)</b>	<b>235,359</b>
<b>Investment and other income (expense)</b>			
Equity in earnings of unconsolidated entities	140,076	131,965	132,714
Interest and dividend income	38,783	16,957	9,092
Gain (loss) on investments	-	-	14,547
Interest expense	(141,719)	(111,397)	(98,811)
Other, net	391	115	(37)
Total investment and other income	<u>37,531</u>	<u>37,640</u>	<u>57,505</u>
<b>Income (loss) before income taxes</b>	<b>434,602</b>	<b>(152,224)</b>	<b>292,864</b>
Income tax expense (benefit)	171,992	(4,932)	126,043
<b>Net income (loss)</b>	<b>262,610</b>	<b>(147,292)</b>	<b>166,821</b>
Less: Net income (loss) attributable to noncontrolling interests, net of tax	43,573	(10,937)	24,894
<b>Net income (loss) attributable to TDS shareholders</b>	<b>219,037</b>	<b>(136,355)</b>	<b>141,927</b>
TDS Preferred dividend requirement	(49)	(49)	(49)
<b>Net income (loss) available to common shareholders</b>	<b>\$ 218,988</b>	<b>\$ (136,404)</b>	<b>\$ 141,878</b>
<b>Basic weighted average shares outstanding</b>	<b>108,645</b>	<b>108,485</b>	<b>108,490</b>
<b>Basic earnings (loss) per share attributable to TDS shareholders</b>	<b>\$ 2.02</b>	<b>\$ (1.26)</b>	<b>\$ 1.31</b>
<b>Diluted weighted average shares outstanding</b>	<b>109,910</b>	<b>108,485</b>	<b>109,132</b>
<b>Diluted earnings (loss) per share attributable to TDS shareholders</b>	<b>\$ 1.98</b>	<b>\$ (1.26)</b>	<b>\$ 1.29</b>
<b>Dividends per share to TDS shareholders</b>	<b>\$ 0.56</b>	<b>\$ 0.54</b>	<b>\$ 0.51</b>

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,	2015	2014	2013
(Dollars in thousands)			
<b>Net income (loss)</b>	<b>\$ 262,610</b>	<b>\$ (147,292)</b>	<b>\$ 166,821</b>
<b>Net change in accumulated other comprehensive income (loss)</b>			
Change in net unrealized gain (loss) on equity investments	(399)	341	51
Change in foreign currency translation adjustment	37	48	(34)
Change related to retirement plan			
Amounts included in net periodic benefit cost for the period			
Net actuarial gains (losses)	866	10,990	13,345
Prior service cost	(7,412)	2,057	–
Amortization of prior service cost	(2,988)	(3,644)	(3,605)
Amortization of unrecognized net loss	290	1,287	2,452
	(9,244)	10,690	12,192
Change in deferred income taxes	3,509	(4,058)	(4,646)
Change related to retirement plan, net of tax	(5,735)	6,632	7,546
Net change in accumulated other comprehensive income (loss)	(6,097)	7,021	7,563
<b>Comprehensive income (loss)</b>	<b>256,513</b>	<b>(140,271)</b>	<b>174,384</b>
Less: Net income (loss) attributable to noncontrolling interests, net of tax	43,573	(10,937)	24,894
<b>Comprehensive income (loss) attributable to TDS shareholders</b>	<b>\$ 212,940</b>	<b>\$ (129,334)</b>	<b>\$ 149,490</b>

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,	2015	2014	2013
(Dollars in thousands)			
<b>Cash flows from operating activities</b>			
Net income (loss)	\$ 262,610	\$ (147,292)	\$ 166,821
Add (deduct) adjustments to reconcile net income (loss) to net cash flows from operating activities			
Depreciation, amortization and accretion	844,361	836,532	1,018,077
Bad debts expense	112,292	107,861	105,629
Stock-based compensation expense	40,400	35,793	30,338
Deferred income taxes, net	70,849	71,713	(67,150)
Equity in earnings of unconsolidated entities	(140,076)	(131,965)	(132,714)
Distributions from unconsolidated entities	60,060	112,349	127,929
Loss on impairment of assets	-	87,802	-
(Gain) loss on asset disposals, net	22,176	26,531	30,841
(Gain) loss on sale of business and other exit costs, net	(135,887)	(15,846)	(300,656)
(Gain) loss on license sales and exchanges	(146,884)	(112,993)	(255,479)
(Gain) loss on investments	-	-	(14,547)
Noncash interest expense	2,760	1,642	2,463
Other operating activities	(769)	(641)	612
Changes in assets and liabilities from operations			
Accounts receivable	(120,230)	17,629	(293,729)
Equipment installment plans receivable	(133,734)	(188,829)	(591)
Inventory	115,482	(29,149)	(83,536)
Accounts payable	7,245	(117,264)	86,028
Customer deposits and deferred revenues	(35,850)	33,952	66,460
Accrued taxes	38,259	(122,921)	17,388
Accrued interest	4,046	1,277	380
Other assets and liabilities	(77,416)	(71,369)	(9,954)
Net cash provided by operating activities	<u>789,694</u>	<u>394,812</u>	<u>494,610</u>
<b>Cash flows from investing activities</b>			
Cash used for additions to property, plant and equipment	(800,628)	(799,496)	(883,797)
Cash paid for acquisitions and licenses	(286,861)	(295,253)	(314,570)
Cash received from divestitures and exchanges	342,870	187,645	811,120
Cash received for investments	-	50,000	115,000
Federal Communications Commission deposit	-	(60,000)	-
Other investing activities	6,932	7,360	11,594
Net cash used in investing activities	<u>(737,687)</u>	<u>(909,744)</u>	<u>(260,653)</u>
<b>Cash flows from financing activities</b>			
Repayment of long-term debt	(816)	(1,072)	(1,581)
Issuance of long-term debt	525,000	275,000	37
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	13,329	(2,019)	9,654
U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	2,167	830	5,784
Repurchase of TDS Common Shares	-	(39,096)	(9,692)
Repurchase of U.S. Cellular Common Shares	(6,188)	(18,943)	(18,544)
Dividends paid to TDS shareholders	(61,219)	(58,040)	(55,293)
U.S. Cellular dividends paid to noncontrolling public shareholders	-	-	(75,235)
Payment of debt issuance costs	(13,026)	(10,215)	(23)
Distributions to noncontrolling interests	(6,369)	(627)	(3,766)
Payments to acquire additional interest in subsidiaries	(3,983)	-	(4,505)
Other financing activities	11,840	11,001	8,740
Net cash provided by (used in) financing activities	<u>460,735</u>	<u>156,819</u>	<u>(144,424)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>512,742</b>	<b>(358,113)</b>	<b>89,533</b>
<b>Cash and cash equivalents</b>			
Beginning of period	471,901	830,014	740,481
End of period	<u>\$ 984,643</u>	<u>\$ 471,901</u>	<u>\$ 830,014</u>

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

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

December 31,	2015	2014
(Dollars in thousands)		
<b>Current assets</b>		
Cash and cash equivalents	\$ 984,643	\$ 471,901
Accounts receivable		
Due from customers and agents, less allowances of \$49,223 and \$41,431, respectively	705,313	548,537
Other, less allowances of \$1,468 and \$1,141, respectively	97,543	135,144
Inventory, net	158,222	273,707
Net deferred income tax asset	—	107,686
Prepaid expenses	112,235	86,506
Income taxes receivable	70,094	113,708
Other current assets	30,293	29,766
Total current assets	<u>2,158,343</u>	<u>1,766,955</u>
<b>Assets held for sale</b>	—	103,343
<b>Licenses</b>	1,844,348	1,453,574
<b>Goodwill</b>	765,792	771,352
<b>Franchise rights</b>	244,180	244,300
<b>Other intangible assets, net of accumulated amortization of \$144,490 and \$133,823, respectively</b>	46,525	64,499
<b>Investments in unconsolidated entities</b>	401,720	321,729
<b>Other investments</b>	616	508
<b>Property, plant and equipment</b>		
In service and under construction	11,520,061	11,194,044
Less: Accumulated depreciation and amortization	7,755,584	7,347,919
Property, plant and equipment, net	<u>3,764,477</u>	<u>3,846,125</u>
<b>Other assets and deferred charges</b>	196,461	282,037
<b>Total assets</b>	<u>\$ 9,422,462</u>	<u>\$ 8,854,422</u>

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,	2015	2014
(Dollars and shares in thousands)		
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 14,306	\$ 808
Accounts payable	348,737	387,125
Customer deposits and deferred revenues	288,412	324,318
Accrued interest	11,962	7,919
Accrued taxes	40,569	46,734
Accrued compensation	113,375	114,549
Other current liabilities	127,023	181,803
Total current liabilities	944,384	1,063,256
<b>Liabilities held for sale</b>	-	21,643
<b>Deferred liabilities and credits</b>		
Net deferred income tax liability	900,054	941,519
Other deferred liabilities and credits	432,949	430,774
<b>Long-term debt, net</b>	2,439,827	1,941,069
<b>Commitments and contingencies</b>	-	-
<b>Noncontrolling interests with redemption features</b>	1,097	1,150
<b>Equity</b>		
TDS shareholders' equity		
Series A Common and Common Shares		
Authorized 290,000 shares (25,000 Series A Common and 265,000 Common Shares)		
Issued 132,782 shares (7,211 Series A Common and 125,571 Common Shares) and 132,749 shares (7,179 Series A Common, and 125,570 Common Shares), respectively		
Outstanding 108,966 shares (7,211 Series A Common and 101,755 Common Shares) and 107,899 shares (7,179 Series A Common, and 100,720 Common Shares), respectively		
Par Value (\$.01 per share) of \$1,328 (\$72 Series A Common and \$1,256 Common Shares) and of \$1,327 (\$72 Series A Common and \$1,255 Common Shares), respectively	1,328	1,327
Capital in excess of par value	2,363,558	2,336,511
Treasury shares at cost:		
23,816 and 24,850 Common Shares, respectively	(727,182)	(748,199)
Accumulated other comprehensive income	355	6,452
Retained earnings	2,487,491	2,330,187
Total TDS shareholders' equity	4,125,550	3,926,278
Preferred shares	824	824
Noncontrolling interests	577,777	527,909
Total equity	4,704,151	4,455,011
<b>Total liabilities and equity</b>	<b>\$ 9,422,462</b>	<b>\$ 8,854,422</b>

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

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

TDS Shareholders

	Series A Common and Common shares	Capital in excess of par value	Treasury shares	Accumulated other comprehensive income (loss)	Retained earnings	Total TDS shareholders' equity	Preferred shares	Noncontrolling interests	Total equity
(Dollars in thousands)									
<b>December 31, 2014</b>	<b>\$ 1,327</b>	<b>\$ 2,336,511</b>	<b>\$ (748,199)</b>	<b>\$ 6,452</b>	<b>\$ 2,330,187</b>	<b>\$ 3,926,278</b>	<b>\$ 824</b>	<b>\$ 527,909</b>	<b>\$ 4,455,011</b>
Add (Deduct)									
Net income attributable to TDS shareholders	–	–	–	–	219,037	219,037	–	–	219,037
Net income attributable to noncontrolling interests classified as equity	–	–	–	–	–	–	–	37,966	37,966
Other comprehensive income	–	–	–	(6,097)	–	(6,097)	–	–	(6,097)
TDS Common and Series A Common share dividends	–	–	–	–	(61,170)	(61,170)	–	–	(61,170)
TDS Preferred dividend requirement	–	–	–	–	(49)	(49)	–	–	(49)
Dividend reinvestment plan	1	3,069	8,607	–	–	11,677	–	–	11,677
Incentive and compensation plans	–	1,672	12,410	–	(514)	13,568	–	–	13,568
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	–	6,115	–	–	–	6,115	–	12,610	18,725
Stock-based compensation awards	–	16,074	–	–	–	16,074	–	–	16,074
Tax windfall (shortfall) from stock awards	–	117	–	–	–	117	–	–	117
Distributions to noncontrolling interests	–	–	–	–	–	–	–	(708)	(708)
<b>December 31, 2015</b>	<b>\$ 1,328</b>	<b>\$ 2,363,558</b>	<b>\$ (727,182)</b>	<b>\$ 355</b>	<b>\$ 2,487,491</b>	<b>\$ 4,125,550</b>	<b>\$ 824</b>	<b>\$ 577,777</b>	<b>\$ 4,704,151</b>

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

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

TDS Shareholders

	Series A Common and Common shares	Capital in excess of par value	Treasury shares	Accumulated other comprehensive income (loss)	Retained earnings	Total TDS shareholders' equity	Preferred shares	Noncontrolling interests	Total equity
(Dollars in thousands)									
<b>December 31, 2013</b>	<b>\$ 1,327</b>	<b>\$ 2,308,807</b>	<b>\$ (721,354)</b>	<b>\$ (569)</b>	<b>\$ 2,529,626</b>	<b>\$ 4,117,837</b>	<b>\$ 824</b>	<b>\$ 551,436</b>	<b>\$ 4,670,097</b>
Add (Deduct)									
Net loss attributable to TDS shareholders	–	–	–	–	(136,355)	(136,355)	–	–	(136,355)
Net loss attributable to noncontrolling interests classified as equity	–	–	–	–	–	–	–	(11,614)	(11,614)
Other comprehensive income	–	–	–	7,021	–	7,021	–	–	7,021
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)
<b>December 31, 2014</b>	<b>\$ 1,327</b>	<b>\$ 2,336,511</b>	<b>\$ (748,199)</b>	<b>\$ 6,452</b>	<b>\$ 2,330,187</b>	<b>\$ 3,926,278</b>	<b>\$ 824</b>	<b>\$ 527,909</b>	<b>\$ 4,455,011</b>

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



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

TDS Shareholders

	Series A Common and Common shares	Capital in excess of par value	Treasury shares	Accumulated other comprehensive income (loss)	Retained earnings	Total TDS shareholders' equity	Preferred shares	Noncontrolling interests	Total equity
(Dollars in thousands)									
<b>December 31, 2012</b>	<b>\$ 1,327</b>	<b>\$ 2,304,122</b>	<b>\$ (750,099)</b>	<b>\$ (8,132)</b>	<b>\$ 2,464,318</b>	<b>\$ 4,011,536</b>	<b>\$ 825</b>	<b>\$ 643,966</b>	<b>\$ 4,656,327</b>
Add (Deduct)									
Net income attributable to TDS shareholders	–	–	–	–	141,927	141,927	–	–	141,927
Net income attributable to noncontrolling interests classified as equity	–	–	–	–	–	–	–	24,661	24,661
Other comprehensive income	–	–	–	7,563	–	7,563	–	–	7,563
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 interests purchases	–	(10,418)	–	–	–	(10,418)	–	5,370	(5,048)
Deconsolidation of partnerships	–	–	–	–	–	–	–	(43,770)	(43,770)
<b>December 31, 2013</b>	<b>\$ 1,327</b>	<b>\$ 2,308,807</b>	<b>\$ (721,354)</b>	<b>\$ (569)</b>	<b>\$ 2,529,626</b>	<b>\$ 4,117,837</b>	<b>\$ 824</b>	<b>\$ 551,436</b>	<b>\$ 4,670,097</b>

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

**Telephone and Data Systems, Inc.**  
**Notes to 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 services to approximately 4.9 million wireless customers and 1.2 million wireline and cable connections at December 31, 2015. TDS conducts all of its wireless operations through its 84%-owned subsidiary, United States Cellular Corporation (“U.S. Cellular”). TDS provides broadband, video, voice and hosted and managed services through its wholly-owned subsidiary, TDS Telecommunications Corporation (“TDS Telecom”).

TDS has the following reportable segments: U.S. Cellular, 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’ wholly-owned subsidiary Suttle-Straus, Inc. (“Suttle-Straus”). Suttle-Straus’ 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 2015 financial statement presentation. In the fourth quarter of 2015, TDS adopted, on a retrospective basis, Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”). See discussion of ASU 2015-03 below under Debt Issuance Costs.

### **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 and equipment installment plans.

### **Cash and Cash Equivalents**

Cash and cash equivalents include cash and 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 through its owned and agent distribution channels, 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 2015, 2014 and 2013 were as follows:

	2015	2014	2013
(Dollars in thousands)			
Balance at beginning of year	\$ 48,637	\$ 65,604	\$ 33,415
Additions, net of recoveries	112,292	107,861	105,629
Deductions	(104,701)	(124,828)	(73,440)
Balance at end of year <sup>1</sup>	<u>\$ 56,228</u>	<u>\$ 48,637</u>	<u>\$ 65,604</u>

<sup>1</sup> In 2015 and 2014, balance includes an allowance of \$5.5 million and \$6.1 million, respectively, related to the long-term portion of unbilled equipment installment plan 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 cost or estimated net realizable value.

## 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 Licenses as of November 1 of each year or more frequently if there are events or circumstances that cause U.S. Cellular to believe the carrying value of Licenses exceeds their fair value on a more likely than not basis. Prior to the fourth quarter of 2015, U.S. Cellular separated its FCC licenses into eleven units of accounting based on geographic service areas. The eleven units of accounting consisted of four geographic units of accounting for developed operating market licenses ("built licenses") and seven geographic non-operating market licenses ("unbuilt licenses"). As part of the current year annual impairment evaluation, U.S. Cellular evaluated the aggregation criteria based on how such licenses are deployed and provide value in U.S. Cellular's operations, and current industry and market factors. It was determined the built licenses should be aggregated into one unit of accounting. The unbuilt licenses continued to be separated into seven geographic units of accounting.

As of November 1, 2015, U.S. Cellular performed a qualitative impairment assessment to determine whether it was more likely than not that the fair value of the built and unbuilt licenses exceed their carrying value. In 2014, U.S. Cellular estimated 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. Based on the impairment assessments performed, U.S. Cellular did not have an impairment of its Licenses in 2015 or 2014.

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

## Goodwill

TDS has Goodwill as a result of its acquisition of wireless, wireline, cable and HMS 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 or more frequently if there are events or circumstances that cause TDS to believe the carrying value of individual reporting units exceeds their respective fair values on a more likely than not basis.

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

## **U.S. Cellular**

For purposes of conducting its annual Goodwill impairment test as of November 1, 2015, U.S. Cellular identified one reporting unit. In 2014, U.S. Cellular identified four reporting units based on four geographic groupings of operating markets, representing four geographic service areas. Due to the evolution of the business and the extent to which U.S. Cellular has similar customers, products and services, and operations across all geographic regions, and also operates one interdependent network, U.S. Cellular determined it had one reporting unit as of November 1, 2015. The change in reporting units required U.S. Cellular to perform an impairment test for both the previous four reporting units and one new reporting unit as of November 1, 2015. A discounted cash flow approach was used to value each reporting unit for purposes of the Goodwill impairment review. Based upon the impairment assessments performed, U.S. Cellular did not have an impairment of its Goodwill in 2015 or 2014.

## **TDS Telecom**

For purposes of conducting its annual Goodwill impairment test as of the November 1, 2015 and 2014, TDS Telecom has identified three reporting units: Wireline, Cable and HMS. The discounted cash flow approach and guideline public company method were used to value the Wireline and Cable reporting units for the 2015 and 2014 annual impairment tests and the HMS reporting unit for the 2015 impairment test. For the 2014 annual impairment test, TDS Telecom performed a qualitative assessment of the HMS reporting unit due to the interim impairment test performed on the HMS reporting unit during the third quarter of 2014. Based on the impairment assessments performed, Wireline and Cable did not have an impairment of their Goodwill in 2015 or 2014. HMS also did not have an impairment of its Goodwill in 2015; however, HMS recognized a loss on impairment in 2014 as described in Note 7 — Intangible Assets.

## **Franchise Rights**

TDS Telecom 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 or more frequently if there are events or circumstances that cause TDS Telecom to believe the carrying value of Franchise rights exceeds their fair value on a more likely than not basis. TDS Telecom tests Franchise rights for impairment at a unit of accounting level for which one unit of accounting was identified. TDS Telecom estimates the fair value of franchise rights for purposes of impairment testing using the build-out method. Based on the impairment assessments performed, TDS Telecom did not have an impairment of Franchise rights in 2015 or 2014.

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 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. Other than the Divestiture

Transaction, there were no material changes to useful lives of property, plant and equipment in 2015, 2014 or 2013. 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 a 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, 2015 and 2014, U.S. Cellular had accrued \$75.7 million and \$95.3 million, respectively, for amounts due to agents. These amounts are included in Other current liabilities in the Consolidated Balance Sheet.

### **Debt Issuance Costs**

Debt issuance costs 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. TDS early adopted ASU 2015-03 using the retrospective method as of December 31, 2015. ASU 2015-03 requires certain debt issuance costs to be presented in the balance sheet as an offset to the related debt obligation. Debt issuance costs related to TDS and U.S. Cellular's revolving credit facilities are excluded from the scope of ASU 2015-03 and are recorded in Other assets and deferred charges in the Consolidated Balance Sheet. As a result of the retrospective adoption, TDS reclassified unamortized debt issuance costs of \$52.5 million as of December 31, 2014 from Other assets and deferred charges to Long-term debt, net in the Consolidated Balance Sheet. Other than this reclassification, the adoption of ASU 2015-03 did not have an impact on TDS' consolidated financial statements.

### **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. 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 TDS no longer has any requirements to perform, when title has passed and when the products are accepted by the 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 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**

In March 2015, U.S. Cellular announced that it would discontinue its loyalty reward program effective September 1, 2015. All unredeemed reward points expired at that time and the deferred revenue balance of \$58.2 million related to such expired points was

recognized as service revenues. At December 31, 2014, U.S. Cellular had deferred revenue related to loyalty reward points outstanding of \$94.6 million.

U.S. Cellular followed the deferred revenue method of accounting for its loyalty reward program. Under this method, revenue allocated to loyalty reward points was deferred. The amount allocated to the loyalty points was 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 was calculated on a weighted average basis and required U.S. Cellular to estimate the percentage of loyalty points that would be redeemed for each product or service.

Revenue was recognized at the time of customer redemption or when such points were depleted via an account maintenance charge. U.S. Cellular employed the proportional model to recognize revenues associated with breakage. Under the proportional model, U.S. Cellular allocated a portion of the estimated future breakage to each redemption and recorded revenue proportionally.

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 in 2013.

### ***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 that are deemed cash are recognized as a reduction of Operating revenues concurrently with the associated revenue.

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 customer occurs. 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 in connection with subsidized device sales are deferred and recognized over a period that corresponds with the length of the customer's service contract. Device activation fees charged at U.S. Cellular company-owned retail stores in connection with subsidized device sales are recognized at the time the device is delivered to the customer. Device activation fees charged at both agent locations and U.S. Cellular company-owned retail stores in connection with equipment installment plan device transactions are deferred and recognized over a period that corresponds with the equipment upgrade eligibility date based on the contract terms.

### ***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 \$95.3 million, \$113.5 million and \$131.0 million for 2015, 2014 and 2013, 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 \$267.9 million, \$228.5 million and \$212.8 million in 2015, 2014 and 2013, 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.

In November 2015, the FASB issued Accounting Standards Update 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"), requiring all deferred tax assets and liabilities, and any related valuation allowance, to be classified as non-current on the balance sheet. The classification change for all deferred taxes as non-current simplifies entities' processes as it eliminates the need to separately identify the net current and net non-current deferred tax asset or liability in each jurisdiction and allocate valuation allowances. TDS is required to adopt ASU 2015-17 on January 1, 2017. Early adoption is permitted. TDS early adopted this standard using the prospective method as of December 31, 2015. No prior period amounts were adjusted.

## Stock-Based Compensation and Other Plans

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.

TDS stock option awards cliff vest in three years. Therefore, compensation cost for TDS stock option awards is recognized on a straight-line basis over the requisite service period, which is generally the vesting period. U.S. Cellular stock option awards vest on an annual basis in three separate tranches. Compensation cost for U.S. Cellular stock option awards is recognized using a graded attribution method over the requisite service period, which is generally the vesting period. TDS and U.S. Cellular restricted stock units cliff vest in three years. Therefore, compensation cost for TDS and U.S. Cellular restricted stock units is recognized on a straight-line basis over the requisite service period, which is generally the vesting period.

## Recently Issued Accounting Pronouncements

In May 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. In August 2015, the FASB issued Accounting Standards Update 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, requiring the adoption of ASU 2014-09 on January 1, 2018. Early adoption as of January 1, 2017 is permitted; however, TDS does not intend to adopt early. TDS is evaluating the effects that adoption of ASU 2014-09 will have on its financial position, results of operations, and disclosures.

In August 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 TDS to assess its ability to continue as a going concern each interim and annual reporting period and provide certain disclosures if there is substantial doubt about the entity's ability to continue as a going concern, including management's plan to alleviate the substantial doubt. TDS is required to adopt the provisions of ASU 2014-15 for the annual period ending December 31, 2016, but early adoption is permitted. The adoption of ASU 2014-15 will not impact TDS' financial position or results of operations but may impact future disclosures.

In February 2015, the FASB issued Accounting Standards Update 2015-02, *Consolidation: Amendments to the Consolidation Analysis* ("ASU 2015-02"). ASU 2015-02 simplifies consolidation accounting by reducing the number of consolidation models. Additionally, ASU 2015-02 changes certain criteria for identifying variable interest entities. TDS adopted the provisions of this standard as of January 1, 2016. TDS expects that certain consolidated subsidiaries that are not defined as variable interest entities under current accounting guidance will be defined as variable interest entities under the provisions of ASU 2015-02. However, TDS' adoption of ASU 2015-02

will not change the group of entities which TDS is required to consolidate in its financial statements. Accordingly, the adoption of ASU 2015-02 will not impact its financial position or results of operations.

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

In September 2015, the FASB issued Accounting Standards Update 2015-16, *Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments* (“ASU 2015-16”). ASU 2015-16 simplifies how adjustments are made to provisional amounts recognized in a business combination during the measurement period. TDS adopted ASU 2015-16 on January 1, 2016. There will be no immediate impacts to TDS’ financial position, results of operations, and disclosures.

In January 2016, the FASB issued Accounting Standards Update 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). This ASU introduces changes to current accounting for equity investments and financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. TDS is required to adopt ASU 2016-01 on January 1, 2018. Certain provisions are eligible for early adoption. TDS is evaluating the effects that adoption of ASU 2016-01 will have on its financial position and results of operations.

## Note 2 Fair Value Measurements

As of December 31, 2015 and 2014, 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, 2015		December 31, 2014	
		Book Value	Fair Value	Book Value	Fair Value
(Dollars in thousands)					
Cash and cash equivalents	1	\$ 984,643	\$ 984,643	\$ 471,901	\$ 471,901
Long-term debt					
Retail	2	1,753,250	1,766,308	1,453,250	1,414,105
Institutional	2	533,015	501,461	532,722	513,647
Other	2	215,538	215,456	4,749	4,675

The fair value of Cash and cash equivalents approximates the book value 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, 7.25% 2063 Senior Notes and 7.25% 2064 Senior Notes. TDS’ “Institutional” debt consists of U.S. Cellular’s 6.7% Senior Notes which are traded over the counter. TDS’ “Other” debt consists of a senior term loan credit facility and other borrowings with financial institutions. 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 7.51% and 0.00% to 7.25% at December 31, 2015 and 2014, respectively.

## Note 3 Equipment Installment Plans

TDS offers customers through its owned and agent distribution channels the option to purchase certain devices under equipment installment contracts over a specified time period. For certain equipment installment plans (“EIP”), after a specified period of time or amount of payments, 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, 2015 and 2014, the guarantee liability related to these plans was \$92.7 million and \$57.5 million, respectively, 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. Equipment installment plan receivables had a weighted average effective imputed interest rate of 9.7% and 10.2% as of December 31, 2015 and 2014, respectively.

The following table summarizes the unbilled equipment installment plan receivables as of December 31, 2015 and 2014. Such amounts are presented in the Consolidated Balance Sheet as Accounts receivable – customers and agents and Other assets and deferred charges, where applicable.

<b>December 31,</b>	<b>2015</b>	<b>2014</b>
(Dollars in thousands)		
Short-term portion of unbilled equipment installment plan receivables, gross	\$ 278,709	\$ 127,400
Short-term portion of unbilled deferred interest	(20,810)	(16,365)
Short-term portion of unbilled allowance for credit losses	(13,827)	(3,686)
Short-term portion of unbilled equipment installment plan receivables, net	<u>\$ 244,072</u>	<u>\$ 107,349</u>
Long-term portion of unbilled equipment installment plan receivables, gross	\$ 75,738	\$ 89,435
Long-term portion of unbilled deferred interest	(2,283)	(2,791)
Long-term portion of unbilled allowance for credit losses	(5,537)	(6,065)
Long-term portion of unbilled equipment installment plan receivables, net	<u>\$ 67,918</u>	<u>\$ 80,579</u>

TDS assesses the collectability of the equipment installment plan receivables based on historical payment experience, account aging and other qualitative factors and provides an allowance for estimated losses. 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.

TDS recorded out-of-period adjustments in 2015 due to errors related to equipment installment plan transactions that were attributable to 2014. TDS has determined that these adjustments were not material to prior annual periods, and also were not material to the current year results. These equipment installment plan adjustments had the impact of reducing Equipment sales revenues by \$6.2 million and Income before income taxes by \$5.8 million in 2015.

## Note 4 Income Taxes

TDS' current income taxes balances at December 31, 2015 and 2014 were as follows:

<b>December 31,</b>	<b>2015</b>	<b>2014</b>
(Dollars in thousands)		
Federal income taxes receivable	\$ 66,785	\$ 108,820
Net state income taxes receivable	3,309	4,391

Income tax expense (benefit) is summarized as follows:

<b>Year Ended December 31,</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
(Dollars in thousands)			
<b>Current</b>			
Federal	\$ 92,887	\$ (87,736)	\$ 181,579
State	8,256	11,091	11,614
<b>Deferred</b>			
Federal	60,939	41,851	(65,970)
Federal - valuation allowance adjustment	-	(10,816)	-
State	9,910	2,208	(1,180)
State - valuation allowance adjustment	-	38,470	-
	<u>\$ 171,992</u>	<u>\$ (4,932)</u>	<u>\$ 126,043</u>

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,	2015		2014		2013	
	Amount	Rate	Amount	Rate	Amount	Rate
(Dollars in thousands)						
Statutory federal income tax expense and rate	\$ 152,111	35.0 %	\$ (53,278)	35.0 %	\$ 102,502	35.0 %
State income taxes, net of federal benefit <sup>1</sup>	11,002	2.5	42,834	(28.1)	10,548	3.6
Effect of noncontrolling interests	2,791	0.6	(5,777)	3.8	(1,034)	(0.4)
Gains (losses) on investments and sale of assets <sup>2</sup>	—	—	—	—	14,949	5.1
Change in federal valuation allowance <sup>3</sup>	2,022	0.5	(8,697)	5.7	—	—
Goodwill impairment <sup>4</sup>	—	—	18,260	(12.0)	—	—
Other differences, net	4,066	1.0	1,726	(1.2)	(922)	(0.3)
Total income tax expense (benefit) and rate	<u>\$ 171,992</u>	<u>39.6 %</u>	<u>\$ (4,932)</u>	<u>3.2 %</u>	<u>\$ 126,043</u>	<u>43.0 %</u>

<sup>1</sup> 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.

<sup>2</sup> Gains (losses) on investments and sale of assets represents 2013 tax expense related to the NY1 & NY2 Deconsolidation and the Divestiture Transaction. See Note 6 — Acquisitions, Divestitures and Exchanges and Note 8 — Investments in Unconsolidated Entities for additional information.

<sup>3</sup> Change in federal valuation allowance in 2015 relates primarily to losses incurred by certain entities where realization of deferred tax assets is not "more likely than not." The decrease to income tax expense in 2014 was due to a valuation allowance reduction for federal net operating losses previously limited under loss utilization rules.

<sup>4</sup> 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, 2015 and 2014 were as follows:

December 31,	2015	2014
(Dollars in thousands)		
Deferred tax assets		
Current deferred tax assets	\$ —	\$ 113,402
Net operating loss ("NOL") carryforwards	137,574	135,676
Stock-based compensation	61,680	54,789
Compensation and benefits - other	37,744	11,014
Deferred rent	19,896	19,604
Other	92,787	35,523
Total deferred tax assets	349,681	370,008
Less valuation allowance	(112,357)	(113,553)
Net deferred tax assets	237,324	256,455
Deferred tax liabilities		
Property, plant and equipment	672,473	667,540
Licenses/intangibles	300,669	259,865
Partnership investments	163,287	151,123
Other	—	9,724
Total deferred tax liabilities	1,136,429	1,088,252
Net deferred income tax liability	<u>\$ 899,105</u>	<u>\$ 831,797</u>

TDS early adopted ASU 2015-17 as of December 31, 2015 using the prospective method. The change required by the guidance, whereby all deferred taxes are classified as non-current, simplifies processes by eliminating the need to separately identify the net current and net non-current deferred tax asset or liability in each jurisdiction and allocate valuation allowances. The prior year Consolidated Balance Sheet and the deferred tax disclosure above were not revised. At December 31, 2015, \$900.1 million of net deferred income tax liability is included in Net deferred income tax liability and \$1.0 million is included in Other assets and deferred charges in the Consolidated Balance Sheet. At December 31, 2014, \$107.7 million of net current deferred income tax asset is included in Net deferred income tax asset and \$941.5 million of net noncurrent deferred income tax liability is included in Net deferred income tax liability and \$2.0 million is included in Other assets and deferred charges in the Consolidated Balance Sheet.

At December 31, 2015, TDS and certain subsidiaries had \$2.4 billion of state NOL carryforwards (generating a \$114.2 million deferred tax asset) available to offset future taxable income. The state NOL carryforwards expire between 2016 and 2035. Certain subsidiaries had federal NOL carryforwards (generating a \$23.4 million deferred tax asset) available to offset their future taxable income. The

federal NOL carryforwards expire between 2018 and 2035. 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:

	2015	2014	2013
(Dollars in thousands)			
Balance at beginning of year	\$ 113,553	\$ 79,064	\$ 70,502
Charged (credited) to income tax expense	(1,196)	34,489	1,954
Charged to other accounts	-	-	6,608
Balance at end of year	<u>\$ 112,357</u>	<u>\$ 113,553</u>	<u>\$ 79,064</u>

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

	2015	2014	2013
(Dollars in thousands)			
Unrecognized tax benefits balance at beginning of year	\$ 37,816	\$ 30,390	\$ 28,420
Additions for tax positions of current year	7,382	7,610	6,388
Additions for tax positions of prior years	1,783	883	1,858
Reductions for tax positions of prior years	(1,434)	(399)	(467)
Reductions for settlements of tax positions	(1,225)	(312)	(1,337)
Reductions for lapses in statutes of limitations	(5,448)	(356)	(4,472)
Unrecognized tax benefits balance at end of year	<u>\$ 38,874</u>	<u>\$ 37,816</u>	<u>\$ 30,390</u>

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 2015, 2014 and 2013 by \$25.6 million, \$24.6 million and \$19.8 million, respectively, net of the federal benefit from state income taxes.

As of December 31, 2015, 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 (benefit). The amounts charged to income tax expense related to interest and penalties resulted in an expense of \$0.6 million, \$3.4 million and \$0.7 million in 2015, 2014 and 2013, respectively. Net accrued interest and penalties were \$16.8 million and \$16.2 million at December 31, 2015 and 2014, respectively.

TDS and its subsidiaries file federal and state income tax returns. With only limited exceptions, TDS is no longer subject to federal income tax audits for the years prior to 2012. With only a few exceptions, TDS is no longer subject to state income tax audits for years prior to 2011.

## 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:

<b>Year Ended December 31,</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
(Dollars and shares in thousands, except earnings per share)			
<b>Basic earnings (loss) per share attributable to TDS shareholders:</b>			
Net income (loss) available to common shareholders of TDS used in basic earnings (loss) per share	\$ 218,988	\$ (136,404)	\$ 141,878
<b>Adjustments to compute diluted earnings:</b>			
Noncontrolling interest adjustment	(1,525)	–	(1,058)
Preferred dividend adjustment	49	–	49
Net income (loss) available to common shareholders of TDS used in diluted earnings (loss) per share	\$ 217,512	\$ (136,404)	\$ 140,869
<b>Weighted average number of shares used in basic earnings (loss) per share</b>			
Common Shares	101,453	101,304	101,339
Series A Common Shares	7,192	7,181	7,151
Total	108,645	108,485	108,490
<b>Effects of dilutive securities:</b>			
Stock options <sup>1</sup>	773	–	209
Restricted stock units <sup>1</sup>	436	–	375
Preferred shares <sup>1</sup>	56	–	58
Weighted average number of shares used in diluted earnings (loss) per share	109,910	108,485	109,132
Basic earnings (loss) per share attributable to TDS shareholders	\$ 2.02	\$ (1.26)	\$ 1.31
Diluted earnings (loss) per share attributable to TDS shareholders	\$ 1.98	\$ (1.26)	\$ 1.29

<sup>1</sup> There were no effects of dilutive securities in 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.

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 attributable to TDS shareholders because their effects were antidilutive. The number of such Common Shares excluded is shown in the table below.

<b>Year Ended December 31,</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
(Shares in thousands)			
Stock options	4,499	8,984	7,120
Restricted stock units	190	839	171
Preferred shares	–	56	–

## Note 6 Acquisitions, Divestitures and Exchanges

### Divestiture Transaction

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

These agreements require Sprint to reimburse U.S. Cellular up to \$200 million (the “Sprint Cost Reimbursement”) for certain network decommissioning costs, network site lease rent and termination costs, network access termination costs, and employee termination benefits for specified engineering employees. As of December 31, 2015, U.S. Cellular had received a cumulative total of \$111.6 million pursuant to the Sprint Cost Reimbursement. Sprint Cost Reimbursement totaling \$30.0 million, \$71.1 million and \$10.6 million had been received and recorded in Cash received from divestitures and exchanges in the Consolidated Statement of Cash Flows in 2015, 2014, and 2013, respectively.

As a result of the Divestiture Transaction, TDS recognized gains of \$6.0 million, \$29.3 million and \$302.0 million in (Gain) loss on sale of business and other exit costs, net, in 2015, 2014 and 2013, respectively.

### Other Acquisitions, Divestitures and Exchanges

- In 2015, TDS sold certain Wireline markets for \$25.6 million, including working capital adjustments, and recognized aggregated gains of \$9.5 million.
- In March 2015, U.S. Cellular exchanged certain of its unbuilt PCS licenses for certain other PCS licenses located in U.S. Cellular's existing operating markets and \$117.0 million of cash. As of the transaction date, the licenses received in the transaction had an estimated fair value, per a market approach, of \$43.5 million. A gain of \$125.2 million was recorded in (Gain) loss on license sales and exchanges, net in the Consolidated Statement of Operations in the first quarter of 2015.
- U.S. Cellular participated in Auction 97 indirectly through its limited partnership interest in Advantage Spectrum. Advantage Spectrum was the provisional winning bidder for 124 licenses for an aggregate winning bid of \$338.3 million, after its expected designated entity discount of 25%. Advantage Spectrum's bid amount, less the upfront payment of \$60.0 million paid in 2014, was paid to the FCC in March 2015. These licenses have not yet been granted by the FCC. See Note 14 — Variable Interest Entities for additional information.
- In December 2014, U.S. Cellular entered into an agreement with a third party to sell 595 towers and certain related contracts, assets, and liabilities for \$159.0 million. This agreement and related transactions are referred to as the "Tower Sale" and were 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. The second closing for the remaining 359 towers, primarily with tenants, took place in January 2015, at which time U.S. Cellular received \$141.8 million in additional cash proceeds and TDS recorded a gain of \$120.2 million in (Gain) loss on sale of business and other exit costs, net.
- In September 2014, U.S. Cellular entered into an agreement with a third party to exchange certain PCS and AWS licenses for certain other PCS and AWS licenses and \$28.0 million of cash. This license exchange was accomplished in two closings. The first closing occurred in December 2014 at which time U.S. Cellular transferred licenses to the counterparty with a net book value of \$11.5 million, received licenses with an estimated fair value, per a market approach, of \$51.5 million, recorded a \$21.7 million gain and recorded an \$18.3 million deferred credit in Other current liabilities. The license that was transferred to the counterparty in the second closing had a net book value of \$22.2 million. The second closing occurred in July 2015. At the time of the second closing, U.S. Cellular received \$28.0 million in cash and recognized the deferred credit from the first closing, resulting in a total gain of \$24.0 million recorded on this part of the license exchange.
- In September 2014, TDS acquired substantially all of the assets of a group of companies operating as BendBroadband, headquartered in Bend, Oregon for \$260.7 million in cash. BendBroadband 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. BendBroadband 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 May 2014, U.S. Cellular entered into a License Purchase and Customer Recommendation Agreement with Airadigm Communications Inc. ("Airadigm"), a wholly-owned subsidiary of TDS. In September 2014, pursuant to the License Purchase and Customer Recommendation Agreement, Airadigm transferred FCC spectrum licenses and certain tower assets in certain markets in Wisconsin, Iowa, Minnesota and Michigan, to U.S. Cellular for \$91.5 million in cash (the "Airadigm Transaction"). 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 of \$15.2 million.
- 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 Broadband, LLC ("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.

TDS' acquisitions in 2015 and 2014 and the allocation of the purchase price for these acquisitions were as follows:

#### Allocation of Purchase Price

	Purchase Price <sup>1</sup>	Goodwill <sup>2</sup>	Licenses	Franchise Rights	Intangible Assets Subject to Amortization <sup>3</sup>	Net Tangible Assets/(Liabilities)
(Dollars in thousands)						
<b>2015</b>						
U.S. Cellular licenses <sup>4</sup>	\$ 345,807	\$ -	\$ 345,807	\$ -	\$ -	\$ -
Total	\$ 345,807	\$ -	\$ 345,807	\$ -	\$ -	\$ -
<b>2014</b>						
U.S. Cellular licenses	\$ 41,707	\$ -	\$ 41,707	\$ -	\$ -	\$ -
TDS Telecom cable business	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

<sup>1</sup> 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.

<sup>2</sup> The entire amount of Goodwill acquired in 2014 was amortizable for income tax purposes.

<sup>3</sup> In 2014, at the date of acquisition, the weighted average amortization period for Intangible Assets Subject to Amortization acquired was 4.6 years for TDS Telecom's cable business.

<sup>4</sup> Includes purchases totaling \$338.3 million made by Advantage Spectrum from the FCC for licenses in Auction 97. These licenses have not yet been granted by the FCC.

TDS did not have any assets or liabilities classified as held for sale at December 31, 2015. At December 31, 2014, the following assets and liabilities 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)						
<b>2014</b>						
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	215	2	-	4,100	3,858	8,175
Total	\$ 1,687	\$ 775	\$ 56,809	\$ 8,444	\$ 35,628	\$ 103,343

	Current Liabilities	Other Deferred Liabilities and Credits	Total Liabilities Held for Sale
(Dollars in thousands)			
<b>2014</b>			
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

Activity related to TDS' Licenses, Goodwill and Franchise rights are presented below. See Note 6 — Acquisitions, Divestitures and Exchanges for information regarding transactions which affected these intangible assets during the periods. Prior to 2009, 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

	U.S. Cellular	Wireline	Cable	Other <sup>1</sup>	Total
(Dollars in thousands)					
Balance at 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 at December 31, 2014	1,448,071	2,800	2,703	—	1,453,574
Acquisitions <sup>2</sup>	345,807	—	—	—	345,807
Exchanges, net	43,485	—	—	—	43,485
Other	1,482	—	—	—	1,482
Balance at December 31, 2015	\$ 1,838,845	\$ 2,800	\$ 2,703	\$ —	\$ 1,844,348

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

<sup>2</sup> Amount in 2015 includes purchases totaling \$338.3 million made by Advantage Spectrum from the FCC for licenses in which it was the provisional winning bidder in Auction 97. See Note 6 — Acquisitions, Divestitures and Exchanges, and Note 14 — Variable Interest Entities for further information. These licenses have not yet been granted by the FCC.

### Goodwill

	U.S. Cellular	Wireline	Cable	HMS	Other	Total
(Dollars in thousands)						
Balance at December 31, 2013 <sup>1</sup>	\$ 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 at December 31, 2014	227,406	413,794	95,322	34,830	—	771,352
Divestitures	—	(5,005)	—	—	—	(5,005)
Other	(555)	—	—	—	—	(555)
Balance at December 31, 2015	\$ 226,851	\$ 408,789	\$ 95,322	\$ 34,830	\$ —	\$ 765,792

<sup>1</sup> 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.

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.

## Franchise Rights

	<b>Cable</b>
(Dollars in thousands)	
Balance at December 31, 2013	\$ 123,668
Acquisitions	120,979
Other	(347)
Balance at December 31, 2014	244,300
Other	(120)
Balance at December 31, 2015	<u>\$ 244,180</u>

## 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:

<b>December 31,</b>	<b>2015</b>	<b>2014</b>
(Dollars in thousands)		
Equity method investments:		
Capital contributions, loans, advances and adjustments	\$ 123,250	\$ 127,939
Cumulative share of income	1,468,312	1,323,898
Cumulative share of distributions	(1,205,497)	(1,145,438)
	<u>386,065</u>	<u>306,399</u>
Cost method investments	15,655	15,330
Total investments in unconsolidated entities	<u>\$ 401,720</u>	<u>\$ 321,729</u>

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

<b>December 31,</b>	<b>2015</b>	<b>2014</b>
(Dollars in thousands)		
Assets		
Current	\$ 670,723	\$ 733,133
Due from affiliates	88,685	303,322
Property and other	4,604,312	2,345,562
	<u>\$ 5,363,720</u>	<u>\$ 3,382,017</u>
Liabilities and Equity		
Current liabilities	\$ 810,121	\$ 407,073
Deferred credits	242,301	175,516
Long-term liabilities	157,785	29,342
Long-term capital lease obligations	1,539	1,722
Partners' capital and shareholders' equity	4,151,974	2,768,364
	<u>\$ 5,363,720</u>	<u>\$ 3,382,017</u>

<b>Year Ended December 31,</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
(Dollars in thousands)			
Results of Operations			
Revenues	\$ 6,979,184	\$ 6,700,266	\$ 6,239,200
Operating expenses	5,245,216	5,063,925	4,492,372
Operating income	1,733,968	1,636,341	1,746,828
Other income (expense), net	(9,049)	6,741	4,019
Net income	<u>\$ 1,724,919</u>	<u>\$ 1,643,082</u>	<u>\$ 1,750,847</u>

### 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.

## Note 9 Property, Plant and Equipment

TDS' Property, plant and equipment in service and under construction, and related accumulated depreciation and amortization, as of December 31, 2015 and 2014 were as follows:

December 31,	Useful Lives (Years)	2015	2014
(Dollars in thousands)			
Land	N/A	\$ 54,567	\$ 52,946
Buildings	5-40	506,486	480,028
Leasehold and land improvements	1-30	1,137,414	1,130,468
Cable and wire	15-35	1,688,606	1,628,782
Network and switching equipment	5-13	2,278,425	2,239,176
Cell site equipment	7-25	3,382,743	3,284,993
Office furniture and equipment	3-10	586,975	634,853
Other operating assets and equipment	3-12	205,132	204,625
System development	1-7	1,459,437	1,319,930
Work in process	N/A	220,276	218,243
		<b>11,520,061</b>	11,194,044
Accumulated depreciation and amortization		<b>(7,755,584)</b>	(7,347,919)
		<b>\$ 3,764,477</b>	\$ 3,846,125

Depreciation and amortization expense totaled \$810.5 million, \$797.6 million and \$984.4 million in 2015, 2014 and 2013, respectively. In 2015, 2014 and 2013, (Gain) loss on asset disposals, net included charges of \$22.2 million, \$26.5 million and \$30.8 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 also 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 2015 and 2014, 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 2015 and 2014 were as follows:

	2015	2014
(Dollars in thousands)		
Balance at beginning of year	\$ 239,032	\$ 275,238
Additional liabilities accrued	1,661	4,907
Revisions in estimated cash outflows	(3,669)	(992)
Disposition of assets	(9,684)	(46,242)
Accretion expense	15,735	17,506
Transferred to Liabilities held for sale	-	(11,385)
Balance at end of year <sup>1</sup>	\$ 243,075	\$ 239,032

<sup>1</sup> The total amount of asset retirement obligations related to the Divestiture Transaction and Airadigm Transaction included in Other current liabilities was \$9.1 million as of December 31, 2014.

## Note 11 Debt

### Revolving Credit Facilities

At December 31, 2015, 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 cash amounts under its revolving credit facility in 2014. Neither TDS nor U.S. Cellular borrowed under their revolving credit facilities in 2015 or 2013 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 under the revolving credit facilities by 0.25% per annum. As of December 31, 2015, TDS' and U.S. Cellular's credit ratings from the nationally recognized credit rating agencies remained at sub-investment grade. 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 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, 2015 with all covenants and other requirements set forth in the revolving credit facilities.

The following table summarizes the terms of such revolving credit facilities as of December 31, 2015:

	TDS	U.S. Cellular
(Dollars in millions)		
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
Illustrative borrowing rate: One-month London Interbank Offered		
Rate ("LIBOR") plus contractual spread <sup>1</sup>	2.18 %	2.18 %
Illustrative LIBOR Rate	0.43 %	0.43 %
Contractual spread	1.75 %	1.75 %
Commitment fees on amount available for use <sup>2</sup>	0.30 %	0.30 %
Agreement date	Dec 2010	Dec 2010
Maturity date	Dec 2017	Dec 2017

Fees incurred attributable to the Revolving Credit Facility are as follows:

Fees incurred as a percent of Maximum borrowing capacity for 2015	0.33 %	0.29 %
Fees incurred, amount		
2015	\$ 1.3	\$ 0.9
2014	\$ 0.9	\$ 3.0
2013	\$ 0.9	\$ 0.8

<sup>1</sup> 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).

<sup>2</sup> 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.

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 million and (ii) refinancing indebtedness in excess of \$250 million 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, 2015, 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 from 3.75 to 3.50, with further decreases effective July 1, 2016 and January 1, 2017 (and will return to 3.00 to 1.00 at that time). For the twelve months ended December 31, 2015, the actual Consolidated Leverage Ratio was 2.25 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, 2015, TDS had recorded \$3.6 million of issuance costs related to the revolving credit facilities which is included in Other assets and deferred charges in the Consolidated Balance Sheet.

### Term Loan

In January 2015, U.S. Cellular entered into a senior term loan credit facility. In July 2015, U.S. Cellular borrowed the full amount of \$225 million available under this facility in two separate draws. The interest rate on outstanding borrowings will be reset at three and six month intervals at a rate of LIBOR plus 250 basis points. This credit facility provides for the draws to be continued on a long-term basis under terms that are readily determinable. U.S. Cellular has the ability and intent to carry the debt for the duration of the agreement. Principal reductions will be due and payable in quarterly installments of \$2.8 million beginning in March 2016 through December 2021, and the remaining unpaid balance will be due and payable in January 2022. This facility was entered into for general corporate purposes, including working capital, spectrum purchases and capital expenditures.

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

In connection with U.S. Cellular's term loan 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 December 31, 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.

#### **Other Long-Term Debt**

In November 2015, U.S. Cellular issued \$300 million of 7.25% Senior Notes due 2064, and received cash proceeds of \$289.7 million after payment of debt issuance costs of \$10.3 million. These funds will be used for general corporate purposes, including working capital, spectrum purchases and capital expenditures.

Long-term debt as of December 31, 2015 and 2014 was as follows:

				December 31,					
				2015			2014		
	Issuance date	Maturity date	Call date	Principal Amount	Less Unamortized discount and debt issuance costs	Total	Principal Amount	Less Unamortized discount and debt issuance costs	Total
(Dollars in thousands)									
<b>TDS:</b>									
Unsecured Senior Notes									
6.625%	March 2005	March 2045	March 2010	\$ 116,250	\$ 3,567	\$ 112,683	\$ 116,250	\$ 3,604	\$ 112,646
6.875%	Nov 2010	Nov 2059	Nov 2015	225,000	7,537	217,463	225,000	7,561	217,439
7.000%	March 2011	March 2060	March 2016	300,000	9,621	290,379	300,000	9,650	290,350
5.875%	Nov 2012	Dec 2061	Dec 2017	195,000	6,718	188,282	195,000	6,744	188,256
Purchase contract	Oct 2001	Oct 2021		1,097	–	1,097	1,097	–	1,097
<b>Total Parent</b>				<b>837,347</b>	<b>27,443</b>	<b>809,904</b>	<b>837,347</b>	<b>27,559</b>	<b>809,788</b>
<b>Subsidiaries:</b>									
<b>U.S. Cellular -</b>									
Unsecured Senior Notes									
6.700%	Dec 2003 and June 2004	Dec 2033	Dec 2003	544,000	15,247	528,753	544,000	15,656	528,344
6.950%	May 2011	May 2060	May 2016	342,000	10,905	331,095	342,000	10,937	331,063
7.250%	Dec 2014	Dec 2063	Dec 2019	275,000	9,629	265,371	275,000	9,644	265,356
7.250%	Nov 2015	Nov 2064	Nov 2020	300,000	10,316	289,684	–	–	–
Term Loan	Jan 2015	Jan 2022		225,000	2,283	222,717	–	–	–
Obligation on capital leases				2,200	–	2,200	2,143	–	2,143
<b>TDS Telecom -</b>									
Rural Utilities Service (“RUS”) and other notes				691	–	691	699	–	699
Obligation on capital leases				733	–	733	767	–	767
<b>Other -</b>									
Long-term notes		Through 2016		2,961	–	2,961	3,686	–	3,686
Obligation on capital leases				24	–	24	31	–	31
<b>Total Subsidiaries</b>				<b>1,692,609</b>	<b>48,380</b>	<b>1,644,229</b>	<b>1,168,326</b>	<b>36,237</b>	<b>1,132,089</b>
<b>Total long-term debt</b>				<b>\$ 2,529,956</b>	<b>\$ 75,823</b>	<b>\$ 2,454,133</b>	<b>\$ 2,005,673</b>	<b>\$ 63,796</b>	<b>\$ 1,941,877</b>
<b>Long-term debt, current</b>						<b>\$ 14,306</b>			<b>\$ 808</b>
<b>Long-term debt, noncurrent</b>						<b>\$ 2,439,827</b>			<b>\$ 1,941,069</b>

TDS may redeem its callable notes and U.S. Cellular may redeem its 6.95% Senior Notes, 7.25% 2063 Senior Notes and 7.25% 2064 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, 2015, with the exception of U.S. Cellular's 6.7% note in which interest is payable semi-annually.

The annual requirements for principal payments on long-term debt are approximately \$14.3 million, \$12.1 million, \$11.4 million, \$11.4 million and \$11.4 million for the years 2016 through 2020, 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 notes 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.

## Note 12 Employee Benefit Plans

### Defined Contribution Plans

TDS sponsors a qualified noncontributory defined contribution pension plan. The plan provides benefits for certain 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, \$16.4 million and \$16.2 million in 2015, 2014 and 2013, 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 \$25.7 million, \$25.3 million and \$24.8 million in 2015, 2014 and 2013, 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 to retirees and that covers certain employees of TDS Corporate and TDS Telecom. The plan is contributory, with retiree contributions adjusted annually.

In August 2015, TDS approved an amendment to its defined benefit post-retirement plan. Under this plan, TDS provides a subsidy to retirees to pay for various medical plan options. The amendment increased subsidy caps and became effective January 1, 2016. The plan amendment, along with certain valuation assumption updates, increased the plan's benefit obligation by \$8.6 million. This amount is included in TDS' December 31, 2015 Accumulated other comprehensive income (loss) as a component of Net actuarial gains (losses) and Prior service cost.

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

December 31,	2015	2014
(Dollars in thousands)		
Net prior service costs	\$ 6,846	\$ 17,246
Net actuarial loss	(7,280)	(8,436)
	<u>\$ (434)</u>	<u>\$ 8,810</u>

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 2016 are \$0.2 million and \$2.0 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 plan.

<b>December 31,</b>	<b>2015</b>	<b>2014</b>
(Dollars in thousands)		
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$ 34,645	\$ 46,142
Service cost	549	1,018
Interest cost	1,540	2,255
Plan amendments	7,412	(2,057)
Actuarial (gain) loss	(3,723)	(10,897)
Prescription drug subsidy	227	264
Employee contribution	2,222	2,216
Benefits paid	(4,101)	(4,296)
Benefit obligation at end of year	<u>38,771</u>	<u>34,645</u>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	51,324	49,743
Actual return (loss) on plan assets	395	3,495
Employee contribution	2,222	2,216
Employer contribution	168	166
Benefits paid	(4,101)	(4,296)
Fair value of plan assets at end of year	<u>50,008</u>	<u>51,324</u>
Funded status	<u>\$ 11,237</u>	<u>\$ 16,679</u>

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, 2015 and 2014.

The following table sets forth by level within the fair value hierarchy the plans' assets at fair value, as of December 31, 2015 and 2014. 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. 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 bank common trust is entirely comprised of the BlackRock Intermediate Government/Credit Bond Index Fund F ("BlackRock Bond Fund") and is valued using the market approach which values the underlying investments in the fund using observable inputs for similar assets.

<b>December 31, 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
(Dollars in thousands)			
<b>Mutual funds</b>			
International equity <sup>1</sup>	\$ 11,912	\$ –	\$ 11,912
Money market <sup>2</sup>	3,139	–	3,139
US large cap <sup>3</sup>	22,327	–	22,327
<b>Bank common trust</b>			
Bond <sup>4</sup>	–	12,630	12,630
<b>Total plan assets at fair value</b>	<b>\$ 37,378</b>	<b>\$ 12,630</b>	<b>\$ 50,008</b>

<b>December 31, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
(Dollars in thousands)			
<b>Mutual funds</b>			
Bond <sup>5</sup>	\$ 12,842	\$ –	\$ 12,842
International equity <sup>1</sup>	12,003	–	12,003
Money market <sup>2</sup>	2,053	–	2,053
US large cap <sup>3</sup>	20,191	–	20,191
US small cap <sup>6</sup>	4,234	–	4,234
Other	–	1	1
<b>Total plan assets at fair value</b>	<b>\$ 51,323</b>	<b>\$ 1</b>	<b>\$ 51,324</b>

<sup>1</sup> International equity - This type of fund seeks 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.

<sup>2</sup> Money market - This type of 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.

<sup>3</sup> US large cap - This type of fund seeks 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.

<sup>4</sup> Bond (bank common trust) – This type of fund seeks to achieve maximum total return by investing in Bond Index Funds and other short-term investments.

<sup>5</sup> Bond (mutual funds) - This type of fund seeks 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.

<sup>6</sup> US small cap - This type of 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.

<b>Investment Category</b>	<b>Target Asset Allocation</b>	<b>Allocation of Plan Assets at December 31,</b>	
		<b>2015</b>	<b>2014</b>
U.S. equities	45%	<b>44.7%</b>	47.6%
International equities	25%	<b>23.8%</b>	23.4%
Debt securities	30%	<b>31.5%</b>	29.0%

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 45% Dow Jones U.S. Total Stock Market Index, 25% 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 8.02% and 7.40%, 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 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, annual contributions to fund the costs of future retiree medical benefits may not exceed certain thresholds. TDS has not determined whether it will make a contribution to the plan in 2016.



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

Year Ended December 31,	2015	2014	2013
(Dollars in thousands)			
Service cost	\$ 549	\$ 1,018	\$ 1,348
Interest cost	1,540	2,255	2,137
Expected return on plan assets	(3,252)	(3,402)	(3,065)
Amortization of prior service costs <sup>1</sup>	(2,988)	(3,644)	(3,605)
Amortization of actuarial losses <sup>2</sup>	290	1,287	2,452
Net post-retirement cost (benefit)	<u>\$ (3,861)</u>	<u>\$ (2,486)</u>	<u>\$ (733)</u>

<sup>1</sup> Based on straight-line amortization over the average time remaining before active employees become fully eligible for plan benefits.

<sup>2</sup> 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,	2015	2014
<b>Benefit obligations</b>		
Discount rate	4.40%	4.20%
<b>Net periodic benefit cost</b>		
Discount rate	4.20%	5.00%
Expected return on plan assets	6.50%	7.00%

The discount rate for 2015 and 2014 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, 2015. For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits was assumed for 2015 to be 9.5% for plan participants aged 65 and above, and 7.3% for participants under age 65. For all participants the 2015 annual rate of increase is expected to decrease to 5.0% by 2024. The 2014 expected rate of increase was 7.8% for plan participants aged 65 and above, and 7.5% for participants under age 65, decreasing to 5.0% for all participants by 2022.

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, 2015:

	One Percent	
	Increase	Decrease
(Dollars in thousands)		
Effect on total service and interest cost components	\$ 14	\$ (13)
Effect on post-retirement benefit obligation	\$ 230	\$ (202)

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

Year	Estimated Future Post-Retirement Benefit Payments
(Dollars in thousands)	
2016	\$ 1,823
2017	1,969
2018	2,061
2019	2,163
2020	2,257
2021-2025	12,229

## Note 13 Commitments and Contingencies

### Agreements

In November 2014, U.S. Cellular executed a Master Statement of Work and certain other documents with Amdocs Software Systems Limited ("Amdocs"). The agreement provides that U.S. Cellular will 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 estimated amount to be paid to Amdocs with respect to the agreement during the remaining term is approximately \$83 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, 2015 under these agreements is approximately \$196 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, 2015, 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:

	Operating Leases Future Minimum Rental Payments	Operating Leases Future Minimum Rental Receipts
(Dollars in thousands)		
2016	\$ 156,882	\$ 48,304
2017	136,248	40,180
2018	117,806	31,940
2019	100,894	21,608
2020	87,993	10,184
Thereafter	724,217	1,238
Total	\$ 1,324,040	\$ 153,454

For 2015, 2014 and 2013, rent expense for noncancellable long-term leases was \$168.4 million, \$177.0 million and \$187.4 million, respectively; and rent expense under cancellable short-term leases was \$10.8 million, \$8.8 million and \$12.5 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 \$0.5 million and \$0.4 million with respect to legal proceedings and unasserted claims as of December 31, 2015 and 2014, 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 is unable to estimate any contingent loss in excess of the amounts accrued.

## Note 14 Variable Interest Entities

TDS consolidates variable interest entities (“VIEs”) in which it has a controlling financial interest and is the primary beneficiary. A controlling financial interest will have both of the following characteristics: (a) the power to direct the VIE activities that most significantly impact economic performance and (b) the obligation to absorb 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, 2015, TDS holds a variable interest in and consolidates the following VIEs under GAAP:

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

The power to direct the activities that most significantly impact the economic performance of Advantage Spectrum, Aquinas Wireless and King Street Wireless (collectively, the “limited partnerships”) is shared. Specifically, the general partner of these VIEs has the exclusive right to manage, operate and control the limited partnerships and make all decisions to carry on the business of the partnerships; however, the general partner of each partnership needs the consent of the limited partner, a 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. 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,	2015	2014
(Dollars in thousands)		
<b>Assets</b>		
Cash and cash equivalents	\$ 1,435	\$ 2,588
Other current assets	265	278
Licenses <sup>1</sup>	648,661	312,977
Property, plant and equipment, net	7,722	10,671
Other assets and deferred charges	147	60,059
Total assets	<u>\$ 658,230</u>	<u>\$ 386,573</u>
<b>Liabilities</b>		
Current liabilities	\$ 143	\$ 110
Deferred liabilities and credits	489	622
Total liabilities	<u>\$ 632</u>	<u>\$ 732</u>

<sup>1</sup> At December 31, 2015, includes purchases totaling \$338.3 million made by Advantage Spectrum from the FCC as described below.

### Other Related Matters

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

FCC Auction 97 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 applied as a “designated entity,” and expects to receive bid credits with respect to spectrum purchased in Auction 97. Advantage Spectrum was the winning bidder for 124 licenses for an aggregate bid of \$338.3 million, after its expected designated entity discount of 25%. This amount is classified as Licenses in TDS’ Consolidated Balance Sheet. Advantage Spectrum’s bid amount, less the initial deposit of \$60.0 million paid in 2014, plus certain other charges totaling \$2.3 million, were paid to the FCC in March 2015. These licenses have not yet been granted by and are still pending before the FCC. To help fund this payment, U.S. Cellular made loans and capital contributions to Advantage Spectrum and Frequency Advantage totaling \$280.6 million during 2015. TDS’ capital contributions and advances made to its VIEs totaled \$60.9 million in 2014. There were no capital contributions or advances made to VIEs in 2013.

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’ Form 10-K for the year ended December 31, 2015.

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 other 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 ("net put value"), was \$1.1 million and \$1.2 million at December 31, 2015 and 2014, 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.

During 2015, TDS recorded out-of-period adjustments attributable to 2013 and 2014, related to an agreement with King Street Wireless. TDS has determined that these adjustments were not material to the prior quarterly or annual periods, and also were not material to the full year 2015 results. As a result of these out-of-period adjustments, Net income decreased by \$2.8 million and Net income attributable to TDS shareholders decreased by \$3.3 million in 2015.

## 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 2015, 2014 and 2013:

Year Ended December 31,	2015	2014	2013
(Dollars in thousands)			
Net income (loss) attributable to TDS shareholders	\$ 219,037	\$ (136,355)	\$ 141,927
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	(14,785)	(12,420)	(14,135)
Change in TDS' Capital in excess of par value from U.S. Cellular's repurchase of U.S. Cellular shares	1,325	1,296	3,370
Change in TDS' Capital in excess of par value from common control transaction	-	7,484	-
Purchase of ownership in subsidiaries from noncontrolling interests	240	(1,034)	(123)
Net transfers (to) from noncontrolling interests	(13,220)	(4,674)	(10,888)
Change from net income (loss) attributable to TDS shareholders and transfers (to) from noncontrolling interests	\$ 205,817	\$ (141,029)	\$ 131,039

### 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, 2015, net of estimated liquidation costs, is \$15.7 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, 2015 was \$4.2 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, 2015, Series A Common Shares were convertible, on a share for share basis, into Common Shares and 7,211,260 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.

	Common Shares	Common Treasury Shares	Series A Common Shares
(Shares in thousands)			
Balance at 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 at 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 at December 31, 2014	125,570	24,850	7,179
Conversion of Series A Common Shares	1	–	(1)
Dividend reinvestment, incentive and compensation plans	–	(1,034)	33
Balance at December 31, 2015	125,571	23,816	7,211

### Tax-Deferred Savings Plan

TDS has reserved 90,341 Common Shares at December 31, 2015, 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.

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 were as follows:

Year Ended December 31,	Number of Shares	Average Cost Per Share	Amount
(Shares and dollar amounts in thousands, except per share amounts)			
<b>2015</b>			
U.S. Cellular Common Shares	178	\$ 34.86	\$ 6,188
TDS Common Shares	–	–	–
<b>2014</b>			
U.S. Cellular Common Shares	496	\$ 38.19	\$ 18,943
TDS Common Shares	1,542	25.36	39,096
<b>2013</b>			
U.S. Cellular Common Shares	499	\$ 37.19	\$ 18,544
TDS Common Shares	339	28.60	9,692

## Note 17 Stock-Based Compensation

### TDS Consolidated

The following table summarizes stock-based compensation expense recognized during 2015, 2014 and 2013:

Year Ended December 31,	2015	2014	2013
(Dollars in thousands)			
Stock option awards	\$ 18,431	\$ 15,802	\$ 12,973
Restricted stock unit awards	20,067	17,968	15,535
Deferred compensation bonus and matching stock unit awards	622	690	550
Awards under Non-Employee Director compensation plan	1,280	1,333	1,280
Total stock-based compensation, before income taxes	40,400	35,793	30,338
Income tax benefit	(15,267)	(13,519)	(11,459)
Total stock-based compensation expense, net of income taxes	\$ 25,133	\$ 22,274	\$ 18,879

At December 31, 2015, unrecognized compensation cost for all stock-based compensation awards was \$42.8 million and is expected to be recognized over a weighted average period of 1.9 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,	2015	2014	2013
(Dollars in thousands)			
Selling, general and administrative expense	\$ 37,465	\$ 32,505	\$ 27,130
Cost of services and products	2,935	3,288	3,208
Total stock-based compensation	\$ 40,400	\$ 35,793	\$ 30,338

TDS' tax benefits realized from the exercise of stock options and other awards totaled \$7.7 million in 2015.

### 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 17,389,000 Common Shares at December 31, 2015 for equity awards granted and to be granted under the TDS Long-Term Incentive Plans in effect. At December 31, 2015, 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 139,000 TDS Common Shares at December 31, 2015 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, 2015 expire between 2016 and 2025. 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 2015, 2014 and 2013 using the Black Scholes valuation model and the assumptions shown in the table below:

	2015	2014	2013
Expected life	6.1 years	5.8 years	5.7 years
Expected annual volatility rate	30.8%	39.6%	41.0%
Dividend yield	1.9%	2.0%	2.3%
Risk-free interest rate	1.8%	1.8%	1.0%
Estimated annual forfeiture rate	3.2%	2.9%	2.9%



A summary of TDS stock options (total and portion exercisable) and changes during 2015, is presented in the tables and narrative below.

<b>Common Share Options</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Prices</b>	<b>Aggregate Intrinsic Value</b>	<b>Weighted Average Remaining Contractual Life (in years)</b>
Outstanding at December 31, 2014 (6,487,000 exercisable)	9,140,000	\$ 30.25		
Granted	998,000	29.26		
Exercised	(575,000)	23.11		
Forfeited	(21,000)	26.30		
Expired	(407,000)	37.09		
Outstanding at December 31, 2015 (6,009,000 exercisable)	9,135,000	\$ 30.29	\$ 9,531,000	5.3
		\$ 32.54	\$ 5,548,000	3.8

The weighted average grant date fair value per share of the TDS stock options granted in 2015, 2014 and 2013 was \$7.66, \$8.66 and \$7.01, respectively. The aggregate intrinsic value of TDS stock options exercised in 2015, 2014 and 2013 was \$3.8 million, \$0.2 million and \$2.5 million, respectively. The aggregate intrinsic value 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, 2015.

*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, 2014 and 2015 and will vest in 2016, 2017 and 2018, 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 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 2015, is presented in the table below:

<b>Common Restricted Stock Units</b>	<b>Number</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested at December 31, 2014	692,000	\$ 23.20
Granted	368,000	\$ 27.57
Forfeited	(16,000)	\$ 25.60
Nonvested at December 31, 2015	1,044,000	\$ 24.70

No restricted stock units vested during 2015. The total fair values as of the respective vesting dates of restricted stock units vested during 2014 and 2013 were \$7.5 million and \$5.8 million, respectively. The weighted average grant date fair value per share of the restricted stock units granted in 2015, 2014 and 2013 was \$27.57, \$25.26 and \$21.09, 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 2015, 2014 and 2013 were \$0.1 million, \$0.1 million and \$0.1 million, respectively. The weighted average grant date fair value per share of the deferred compensation stock units granted in 2015, 2014 and 2013 was \$25.36, \$23.27 and \$21.99, respectively. As of December 31, 2015, there were 261,000 vested but unissued deferred compensation stock units valued at \$6.8 million.

*Compensation of Non-Employee Directors* – TDS issued 28,000, 33,000 and 33,000 Common Shares under its Non-Employee Director plan in 2015, 2014 and 2013, respectively.

*Dividend Reinvestment Plans ("DRIP")* – TDS had reserved 605,000 Common Shares at December 31, 2015, for issuance under Automatic Dividend Reinvestment and Stock Purchase Plans and 107,000 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, 2015, the only types of awards outstanding are fixed non-qualified stock option awards, restricted stock unit awards, and deferred compensation stock unit awards.

Under the Non-Employee Director compensation plan, U.S. Cellular may grant Common Shares to members of the Board of Directors who are not employees of U.S. Cellular or TDS.

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, 2015, U.S. Cellular had reserved 9,340,000 Common Shares for equity awards granted and to be granted under the Long-Term Incentive Plans and 183,000 Common Shares for issuance under the Non-Employee Director compensation plan.

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, 2015 expire between 2016 and 2025. 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 2015, 2014 and 2013 using the Black-Scholes valuation model and the assumptions shown in the table below.

	2015	2014	2013
Expected life	4.6 years	4.5 years	4.6-9.0 years
Expected annual volatility rate	30.1%	28.0%-28.1%	29.2%-39.6%
Dividend yield	0%	0%	0%
Risk-free interest rate	1.2%	1.4%-1.5%	0.7%-2.4%
Estimated annual forfeiture rate	9.7%	9.4%	0.0%-8.1%

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 2015, is presented in the table below:

<b>Common Share Options</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Aggregate Intrinsic Value</b>	<b>Weighted Average Remaining Contractual Life (in years)</b>
Outstanding at December 31, 2014 (1,586,000 exercisable)	3,388,000	\$ 41.51		
Granted	1,279,000	36.42		
Exercised	(321,000)	32.94		
Forfeited	(110,000)	37.57		
Expired	(134,000)	43.77		
Outstanding at December 31, 2015 (1,849,000 exercisable)	4,102,000	\$ 40.62	\$ 11,292,000	6.8
		\$ 44.33	\$ 3,733,000	4.6

The weighted average grant date fair value per share of the U.S. Cellular stock options granted in 2015, 2014 and 2013 was \$9.94, \$10.68 and \$11.53, respectively. The aggregate intrinsic value of U.S. Cellular stock options exercised in 2015, 2014 and 2013 was \$2.1 million, \$2.0 million and \$6.8 million, respectively. The aggregate intrinsic value 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, 2015.

*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, 2015 and changes during the year then ended is presented in the table below:

<b>Common Restricted Stock Units</b>	<b>Number</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested at December 31, 2014	1,142,000	\$ 35.60
Granted	478,000	37.24
Vested	(349,000)	34.05
Forfeited	(77,000)	35.76
Nonvested at December 31, 2015	1,194,000	\$ 36.70

The total fair value of restricted stock units that vested during 2015, 2014 and 2013 was \$12.9 million, \$11.1 million and \$8.8 million, respectively. The weighted average grant date fair value per share of the restricted stock units granted in 2015, 2014 and 2013 was \$37.24, \$41.24 and \$32.06, 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.

The total fair value of deferred compensation stock units that vested during 2015 and 2013 was \$0.2 million and less than \$0.1 million, respectively. The weighted average grant date fair value per share of the deferred compensation stock units granted in 2015 and 2013 was \$35.96 and \$31.50, respectively. There were no deferred compensation stock units granted or that vested during 2014. As of December 31, 2015, there were 6,000 vested but unissued deferred compensation stock units valued at \$0.2 million.

*Compensation of Non-Employee Directors* – U.S. Cellular issued 15,000, 14,200 and 13,000 Common Shares in 2015, 2014 and 2013, 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 2015, 2014 and 2013, is as follows. See Note 1 — Summary of Significant Accounting Policies and Recent Accounting Pronouncements for additional information.

Year Ended or as of December 31, 2015	TDS Telecom							Total
	U.S. Cellular	Wireline	Cable	HMS	TDS Telecom Eliminations	TDS Telecom Total	Corporate, Eliminations and Other	
(Dollars in thousands)								
<b>Operating revenues</b>								
Service	\$ 3,350,431	\$ 698,938	\$ 174,529	\$ 116,810	\$ (4,621)	\$ 985,656	\$ (14,118)	\$ 4,321,969
Equipment and product sales	646,422	1,965	437	169,985	–	172,387	35,463	854,272
Total operating revenues	3,996,853	700,903	174,966	286,795	(4,621)	1,158,043	21,345	5,176,241
Cost of services (excluding Depreciation, amortization and accretion expense reported below)								
	775,042	254,879	78,758	85,163	(4,334)	414,466	1,402	1,190,910
Cost of equipment and products	1,052,810	2,212	169	142,927	–	145,308	25,913	1,224,031
Selling, general and administrative	1,493,730	193,850	53,738	47,104	(287)	294,405	(7,672)	1,780,463
Depreciation, amortization and accretion	606,455	165,841	35,271	26,948	–	228,060	9,846	844,361
(Gain) loss on asset disposals, net	16,313	5,094	691	89	–	5,874	(11)	22,176
(Gain) loss on sale of business and other exit costs, net	(113,555)	(9,530)	–	–	–	(9,530)	(12,802)	(135,887)
(Gain) loss on license sales and exchanges	(146,884)	–	–	–	–	–	–	(146,884)
<b>Operating income (loss)</b>	312,942	88,557	6,339	(15,436)	–	79,460	4,669	397,071
Equity in earnings of unconsolidated entities	140,083	17	–	–	–	17	(24)	140,076
Interest and dividend income	36,332	2,193	37	35	–	2,265	186	38,783
Interest expense	(86,194)	1,133	458	(2,329)	–	(738)	(54,787)	(141,719)
Other, net	466	(22)	3	(98)	–	(117)	42	391
<b>Income (loss) before income taxes</b>	403,629	91,878	6,837	(17,828)	–	80,887	(49,914)	434,602
Income tax expense (benefit) <sup>1</sup>	156,334	–	–	–	–	34,972	(19,314)	171,992
<b>Net income (loss)</b>	247,295	–	–	–	–	45,915	(30,600)	262,610
<b>Add back:</b>								
Depreciation, amortization and accretion	606,455	165,841	35,271	26,948	–	228,060	9,846	844,361
(Gain) loss on asset disposals, net	16,313	5,094	691	89	–	5,874	(11)	22,176
(Gain) loss on sale of business and other exit costs, net	(113,555)	(9,530)	–	–	–	(9,530)	(12,802)	(135,887)
(Gain) loss on license sales and exchanges	(146,884)	–	–	–	–	–	–	(146,884)
Interest expense	86,194	(1,133)	(458)	2,329	–	738	54,787	141,719
Income tax expense (benefit) <sup>1</sup>	156,334	–	–	–	–	34,972	(19,314)	171,992
<b>Adjusted EBITDA<sup>2</sup></b>	<b>\$ 852,152</b>	<b>\$ 252,150</b>	<b>\$ 42,341</b>	<b>\$ 11,538</b>	<b>\$ –</b>	<b>\$ 306,029</b>	<b>\$ 1,906</b>	<b>\$ 1,160,087</b>
Investments in unconsolidated entities	\$ 363,384	\$ 3,802	\$ –	\$ –	\$ –	\$ 3,802	\$ 34,534	\$ 401,720
Total assets	\$ 7,059,978	\$ 1,312,394	\$ 577,788	\$ 285,929	\$ –	\$ 2,176,111	\$ 186,373	\$ 9,422,462
Capital expenditures	\$ 533,053	\$ 140,433	\$ 51,573	\$ 27,059	\$ –	\$ 219,065	\$ 7,250	\$ 759,368

Year Ended or as of December 31, 2014	TDS Telecom							Corporate, Eliminations and Other	Total
	U.S. Cellular	Wireline	Cable	HMS	TDS Telecom Eliminations	TDS Telecom Total			
(Dollars in thousands)									
<b>Operating revenues</b>									
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)	
<b>Operating income (loss)</b>	<b>(143,390)</b>	<b>98,474</b>	<b>290</b>	<b>(109,135)</b>	<b>–</b>	<b>(10,371)</b>	<b>(36,103)</b>	<b>(189,864)</b>	
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	
<b>Income (loss) before income taxes</b>	<b>(58,704)</b>	<b>103,541</b>	<b>392</b>	<b>(110,699)</b>	<b>–</b>	<b>(6,766)</b>	<b>(86,754)</b>	<b>(152,224)</b>	
Income tax expense (benefit) <sup>1</sup>	(11,782)	–	–	–	–	17,590	(10,740)	(4,932)	
<b>Net income (loss)</b>	<b>(46,922)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(24,356)</b>	<b>(76,014)</b>	<b>(147,292)</b>	
<b>Add back:</b>									
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)	
Interest expense	57,386	(2,695)	(95)	1,602	–	(1,188)	55,199	111,397	
Income tax expense (benefit) <sup>1</sup>	(11,782)	–	–	–	–	17,590	(10,740)	(4,932)	
<b>Adjusted EBITDA<sup>2</sup></b>	<b>\$ 480,325</b>	<b>\$ 269,624</b>	<b>\$ 26,422</b>	<b>\$ 1,996</b>	<b>\$ –</b>	<b>\$ 298,042</b>	<b>\$ 2,832</b>	<b>\$ 781,199</b>	
Investments in unconsolidated entities	\$ 283,014	\$ 3,803	\$ –	\$ –	\$ –	\$ 3,803	\$ 34,912	\$ 321,729	
Total assets <sup>3</sup>	\$ 6,462,309	\$ 1,419,478	\$ 563,585	\$ 268,972	\$ –	\$ 2,252,035	\$ 140,078	\$ 8,854,422	
Capital expenditures	\$ 557,615	\$ 135,805	\$ 35,640	\$ 36,618	\$ –	\$ 208,063	\$ 4,899	\$ 770,577	

Year Ended or as of December 31, 2013	TDS Telecom							Corporate, Eliminations and Other	Total
	U.S. Cellular	Wireline	Cable	HMS	TDS Telecom Eliminations	TDS Telecom Total			
(Dollars in thousands)									
<b>Operating revenues</b>									
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)	
<b>Operating income (loss)</b>	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)	
<b>Income (loss) before income taxes</b>	257,656	70,665	(116)	(21,664)	–	48,885	(13,677)	292,864	
Income tax expense (benefit) <sup>1</sup>	113,134	–	–	–	–	19,084	(6,175)	126,043	
<b>Net income (loss)</b>	144,522	–	–	–	–	29,801	(7,502)	166,821	
<b>Add back:</b>									
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)	
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	
Income tax expense (benefit) <sup>1</sup>	113,134	–	–	–	–	19,084	(6,175)	126,043	
<b>Adjusted EBITDA<sup>2</sup></b>	<b>\$ 615,204</b>	<b>\$ 237,568</b>	<b>\$ 7,557</b>	<b>\$ 4,349</b>	<b>\$ –</b>	<b>\$ 249,474</b>	<b>\$ 5,233</b>	<b>\$ 869,911</b>	
Investments in unconsolidated entities	\$ 265,585	\$ 3,809	\$ –	\$ –	\$ –	\$ 3,809	\$ 32,378	\$ 301,772	
Total assets <sup>3</sup>	\$ 6,430,255	\$ 1,452,502	\$ 278,969	\$ 328,397	\$ –	\$ 2,059,868	\$ 370,905	\$ 8,861,028	
Capital expenditures	\$ 737,501	\$ 140,009	\$ 8,375	\$ 16,474	\$ –	\$ 164,858	\$ 7,301	\$ 909,660	

<sup>1</sup> Income tax expense (benefit) is not provided at the individual segment level for Wireline, Cable and HMS. TDS calculates income tax expense for "TDS Telecom Total".

<sup>2</sup> Adjusted earnings before interest, taxes, depreciation, amortization and accretion ("Adjusted EBITDA") 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 EBITDA is defined as net income, adjusted for the items set forth in the reconciliation above. Adjusted EBITDA 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 EBITDA 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 EBITDA is a useful measure of TDS' operating results before significant recurring non-cash charges, discrete gains and losses, and other items as indicated above.

<sup>3</sup> ASU 2015-03, regarding simplification of the presentation of debt issuance costs, was adopted as of December 31, 2015 and applied retrospectively. All prior year numbers have been revised to conform to this standard.

## Note 19 Supplemental Cash Flow Disclosures

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

Year Ended December 31,	2015	2014	2013
(Dollars in thousands)			
Interest paid	\$ 134,916	\$ 108,510	\$ 96,241
Income taxes paid, net of refunds received	57,442	48,876	175,629

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,	2015	2014	2013
(Dollars in thousands)			
Common Shares withheld	3,163	109,061	265,748
Aggregate value of Common Shares withheld	\$ 76	\$ 2,751	\$ 7,639
Cash receipts upon exercise of stock options	13,405	732	12,092
Cash disbursements for payment of taxes	(76)	(2,751)	(2,438)
Net cash receipts (disbursements) from exercise of stock options and vesting of other stock awards	\$ 13,329	\$ (2,019)	\$ 9,654

### U.S. Cellular:

Year Ended December 31,	2015	2014	2013
(Dollars in thousands)			
Common Shares withheld	228,011	163,355	606,582
Aggregate value of Common Shares withheld	\$ 8,448	\$ 6,868	\$ 25,179
Cash receipts upon exercise of stock options	6,881	5,166	10,468
Cash disbursements for payment of taxes	(4,714)	(4,336)	(4,684)
Net cash receipts from exercise of stock options and vesting of other stock awards	\$ 2,167	\$ 830	\$ 5,784

Under the American Recovery and Reinvestment Act of 2009 ("the Recovery Act"), TDS Telecom was awarded and received \$93.9 million in federal grants and provided \$32.4 million of its own funds to complete 44 projects to provide broadband access in unserved areas. TDS Telecom received \$15.1 million, \$15.3 million, and \$41.9 million in grants in 2015, 2014 and 2013, respectively. These funds reduced the carrying amount of the assets to which they relate. TDS Telecom had recorded \$14.2 million in grants receivable at December 31, 2014 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, 2015. U.S. Cellular has received \$13.4 million in support funds, of which the entire balance has been spent as of December 31, 2015. In 2014, \$1.9 million was 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. U.S. Cellular has set up a receivable in the amount of \$18.4 million as of December 31, 2015 as part of Phase II of the Mobility Fund.

## 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 \$11.9 million in 2015, \$15.4 million in 2014 and \$17.6 million in 2013.

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.

## **Note 21 Subsequent Events**

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

# 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.

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LeRoy T. Carlson, Jr.  
President and  
Chief Executive Officer  
(principal executive officer)

/s/ Douglas D. Shuma

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Douglas D. Shuma  
Senior Vice President - Finance and  
Chief Accounting Officer  
(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, 2015, 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, 2015 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, 2015 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.

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LeRoy T. Carlson, Jr.  
President and  
Chief Executive Officer  
(principal executive officer)

/s/ Douglas D. Shuma

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Douglas D. Shuma  
Senior Vice President - Finance and  
Chief Accounting Officer  
(principal financial officer and principal  
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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 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, 2015, 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 and Subsidiary, 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 \$197,600,000 and \$123,600,000 as of December 31, 2015 and 2014, respectively, and equity earnings of \$74,000,000, \$71,800,000 and \$78,400,000 for each of the three years in the period ended December 31, 2015. The financial statements of Los Angeles SMSA Limited Partnership and Subsidiary 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 and Subsidiary, 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.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it classifies debt issuance costs and deferred income taxes in 2015.

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 24, 2016