

TELEPHONE & DATA SYSTEMS INC /DE/

Form ARS

April 17, 2015

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**TELEPHONE AND DATA SYSTEMS, INC.
ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2014
Pursuant to SEC Rule 14a-3**

The following audited financial statements and certain other financial information for the year ended December 31, 2014, represent Telephone and Data Systems' annual report to shareholders as required by the rules and regulations of the Securities and Exchange Commission ("SEC").

The following information was filed with the SEC on February 25, 2015 as Exhibit 13 to Telephone and Data Systems' Annual Report on Form 10-K for the year ended December 31, 2014. Such information has not been updated or revised since the date it was originally filed with the SEC. Accordingly, you are encouraged to review such information together with any subsequent information that we have filed with the SEC and other publicly available information.

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Exhibit 13

Telephone and Data Systems, Inc.

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Telephone and Data Systems, Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

The following discussion and analysis should be read in conjunction with TDS' audited consolidated financial statements and the description of TDS' business included in Item 1 of the TDS Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2014. The discussion and analysis contained herein refers to consolidated data and results of operations, unless otherwise noted.

OVERVIEW

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

TDS' business segments reflected in this Annual Report on Form 10-K for the year ended December 31, 2014 are U.S. Cellular, TDS Telecom's Wireline, Cable and HMS operations. TDS operations also include the majority-owned printing and distribution company, Suttle-Straus, Inc. ("Suttle-Straus") and TDS' wholly-owned subsidiary, Airadigm Communications, Inc. ("Airadigm"). Suttle-Straus and Airadigm's financial results were not significant to TDS' operations. All of TDS' segments operate only in the United States, except for HMS, which includes an insignificant foreign operation. See Note 18 Business Segment Information for summary financial information on each business segment.

U.S. Cellular

In its consolidated operating markets, U.S. Cellular serves approximately 4.8 million customers in 23 states. As of December 31, 2014, U.S. Cellular's average penetration rate in its consolidated operating markets was 15.0%. U.S. Cellular operates on a customer satisfaction strategy, striving to meet or exceed customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network. U.S. Cellular's business development strategy is to obtain interests in and access to wireless licenses in its current operating markets and in areas that are adjacent to or in close proximity to its other wireless licenses, thereby building contiguous operating market areas with strong spectrum positions. U.S. Cellular believes that the acquisition of additional licenses within its current operating markets will enhance its network capacity to meet its customers' increased demand for data services. In addition, U.S. Cellular anticipates that grouping its operations into market areas will continue to provide it with certain economies in its capital and operating costs.

Financial and operating highlights in 2014 included the following:

Total customers were 4,760,000 at December 31, 2014, including 4,646,000 retail customers (98% of total).

Beginning in the second quarter of 2014, U.S. Cellular expanded its offerings for equipment installment plans. In 2014, 24% of total device sales to postpaid customers were made under equipment installment plans.

In December 2014, U.S. Cellular sold \$275 million of 7.25% Unsecured Senior Notes due 2063 and will use the proceeds for general corporate purposes, including spectrum purchases and capital expenditures. See Note 11 Debt for additional details.

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In December 2014, U.S. Cellular entered into an agreement to sell 595 towers outside of its Core Markets for approximately \$159 million. Concurrently, U.S. Cellular closed on the sale of 236 towers, without tenants, for \$10.0 million, recorded a gain of \$4.7 million to (Gain) loss on sale of business and other exit costs, net and received \$7.5 million in earnest money. The closing for the remaining 359 towers, primarily with tenants, occurred in January 2015, at which time U.S. Cellular received \$141.5 million in additional cash proceeds. TDS recorded a gain of approximately \$119 million related to this transaction.

In December 2014, U.S. Cellular completed a license exchange primarily in Oklahoma, North Carolina and Tennessee. As a result of this transaction, a gain of \$21.7 million was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations.

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

In February 2014, U.S. Cellular completed a license exchange in Wisconsin. As a result of this transaction, a gain of \$15.7 million was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations.

In 2014, Core Markets information is the same as Consolidated Markets information. However, because the Divestiture Transaction and the NY1 & NY2 Deconsolidation were consummated in the second quarter of 2013, the Consolidated Markets in the first six months of 2013 include information with respect to the Divestiture Markets and the NY1 & NY2 Partnerships. Accordingly, the following operating information is presented for Core Markets to permit a comparison of 2014 to 2013 excluding the Divestiture Markets and the NY1 & NY2 Partnerships. As used here, Core Markets is defined as all consolidated markets in which U.S. Cellular currently conducts business and, therefore, excludes the Divestiture Markets and the NY1 & NY2 Partnerships. Core Markets as defined also includes any other income or expenses due to U.S. Cellular's direct or indirect ownership interests in other spectrum in the Divestiture Markets which was not included in the Divestiture Transaction and other retained assets from the Divestiture Markets. See Note 6 Acquisitions, Divestitures and Exchanges and Note 8 Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

Highlights in the twelve months ended December 31, 2014 for Core Markets included the following:

Retail customer net additions were 36,000 in 2014 compared to net losses of 215,000 in 2013. In the postpaid category, there were net additions of 31,000 in 2014, compared to net losses of 217,000 in 2013. Prepaid net additions were 5,000 in 2014 compared to net additions of 2,000 in 2013.

Postpaid customers comprised approximately 93% of U.S. Cellular's retail customers as of both December 31, 2014 and December 31, 2013, respectively. The postpaid churn rate was 1.8% in 2014 and 1.7% in 2013. Postpaid churn in the first half of 2014 was adversely affected by the billing system conversion in 2013; however, it steadily improved over the course of the year and was 1.6% for the three months ended December 31, 2014. The prepaid churn rate was 6.4% in 2014 and 6.7% in 2013.

Billed average revenue per user ("ARPU") increased to \$53.49 in 2014 from \$50.82 in 2013 reflecting an increase in postpaid ARPU due to increases in smartphone adoption and corresponding revenues from data products and services. Service revenue ARPU increased to \$60.32 in 2014 from \$57.66 in 2013 due primarily to an increase in postpaid and prepaid ARPU.

Postpaid customers on smartphone service plans increased to 60% as of December 31, 2014 compared to 51% as of December 31, 2013. In addition, smartphones represented 81% of all handsets sold in 2014 compared to 73% in 2013.

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

Retail service revenues of \$3,013.0 million decreased \$152.5 million year-over-year, due to a decrease of 456,000 in the average number of retail customers (including approximately 250,000 due to the reductions caused by the Divestiture Transaction and NY1 & NY2 Deconsolidation) partially offset by an increase in billed ARPU.

Total additions to Property, plant and equipment were \$557.6 million, including expenditures to deploy fourth generation Long-term Evolution ("4G LTE") equipment, construct cell sites, increase capacity in existing cell sites and switches, outfit new and remodel existing retail stores, and enhance billing and other customer management related systems and platforms. Total cell sites in service decreased 11% year-over-year to 6,220 primarily as a result of the deactivation of certain cell sites in the Divestiture Markets.

Operating income (loss) decreased \$290.3 million to a loss of \$143.4 million in 2014 from income of \$146.9 million in 2013. The gain on license sales and exchanges and the gain on sale of business and other exit costs contributed \$145.8 million and \$502.2 million to operating income in 2014 and 2013, respectively. Without these items, operating income (loss) improved by \$66.2 million due to higher equipment revenue and lower selling, general and administrative, and depreciation, amortization and accretion expenses, which were partially offset by lower service revenues and higher cost of equipment sold.

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

Effects of industry competition on service and equipment pricing;

U.S. Cellular completed the migration of its customers to a new Billing and Operational Support System ("B/OSS") in the third quarter of 2013. Intermittent system outages and delayed system response times negatively impacted customer service and sales operations at certain times. System enhancements and other measures were implemented to address these issues, and customer service and sales operations response times have improved to expected levels. In addition, in the fourth quarter of 2014, U.S. Cellular entered into certain arrangements pursuant to which U.S. Cellular now outsources certain support functions for its B/OSS to a third-party vendor. B/OSS is a complex system and any future operational problems with the system, including any failure by the vendor to provide the required level of service under the outsourcing arrangements, could have adverse effects on U.S. Cellular's results of operations or cash flows;

Impacts of selling Apple products;

Impacts of selling devices under equipment installment plans;

Relative ability to attract and retain customers in a competitive marketplace in a cost effective manner;

Expanded distribution of products and services in third-party national retailers;

The nature and rate of growth in the wireless industry, requiring U.S. Cellular to grow revenues primarily from selling additional products and services to its existing customers, increasing the number of multi-device users among its existing customers, increasing data products and services and attracting wireless customers switching from other wireless carriers;

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Continued growth in revenues and costs related to data products and services and declines in revenues from voice services;

Rapid growth in the demand for new data devices and services which may result in increased cost of equipment sold and other operating expenses and the need for additional investment in spectrum, network capacity and enhancements;

Further consolidation among carriers in the wireless industry, which could result in increased competition for customers and/or cause roaming revenues to decline;

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

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

In September 2014, U.S. Cellular entered into agreements to sell certain non-operating licenses ("unbuilt licenses") in exchange for receiving licenses in its operating markets and cash. These transactions are subject to regulatory approval and are expected to close in 2015. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to the Consolidated Financial Statements for additional information related to these transactions;

In January 2015, U.S. Cellular entered into a term loan credit agreement providing a \$225.0 million senior term loan credit facility which will be used for general corporate purposes, including spectrum purchases and capital expenditures; and

In January 2015, the FCC released the results of Auction 97. U.S. Cellular participated in Auction 97 indirectly through its limited partnership in Advantage Spectrum, L.P. See Note 14 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

See "Results of Operations U.S. Cellular."

TDS Telecom

The Wireline and Cable segments seek to be the preferred telecommunications solutions providers in their chosen markets serving both residential and commercial customers by developing and delivering high-quality products that meet or exceed customers' needs and to outperform the competition by maintaining superior customer service. TDS Telecom provides broadband, video and voice services to residential customers through value-added bundling of products. The commercial focus is to provide advanced IP-based voice and data services to small to medium sized businesses. The HMS segment offers a full suite of Information Technology ("IT") solutions including cloud and hosting solutions, managed services, enterprise resource planning ("ERP") application management, professional services, and IT hardware.

On September 1, 2014, TDS acquired substantially all of the assets of a group of companies operating as BendBroadband ("Bend"), headquartered in Bend, Oregon for \$260.7 million in cash. Bend is a full-service communications company, offering an extensive range of broadband, fiber connectivity, cable television and telephone services for commercial and residential customers in Central Oregon. As part of the agreement, TDS also acquired a Tier III data center providing colocation and managed services and a cable advertising and broadcast business. The operations of the cable and advertising and broadcast businesses are included in the Cable segment. The data center services are included in the HMS segment.

On October 4, 2013, TDS acquired 100% of the outstanding shares of MSN Communications, Inc. ("MSN") for \$43.6 million in cash. The operations of MSN are included in the HMS segment since the date of acquisition.

On August 1, 2013, TDS Telecom acquired substantially all of the assets of Baja Broadband, LLC ("Baja") for \$264.1 million in cash. The operations of Baja are included in the Cable segment since the date of acquisition.

TDS Telecom acquired Vital Support Systems, LLC ("Vital") in June 2012 for \$46.1 million in cash. The operations of Vital are included in the HMS segment since the date of acquisition.

All of these acquisitions impact the comparability of TDS Telecom operating results.

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Financial and operating highlights in 2014 included the following:

Operating revenues increased \$141.3 million or 15% to \$1,088.3 million in 2014. The increase was due primarily to \$164.5 million from acquisitions.

Operating expenses increased \$196.5 million or 22% to \$1,098.7 million in 2014 due primarily to \$160.6 million from acquisitions and an \$84.0 million non-cash goodwill impairment loss, partially offset by a \$43.6 million decrease in Wireline expenses.

Additions to Property, plant and equipment totaled \$208.1 million in 2014 including strategic investment in increased network capabilities for broadband services, HMS expansion, IPTV expansion, and software tools that improve management of the network and support sales and customer service processes.

An \$84.0 million loss on impairment of goodwill was recognized in the HMS segment during the quarter ended September 30, 2014. See Note 7 Intangible Assets in the Notes to Consolidated Financial Statements for more information related to this impairment.

Operating income declined \$55.2 million to a \$10.4 million loss in 2014. Without the impairment loss of \$84.0 million, operating income was higher by \$28.8 million or 64%.

TDS anticipates that TDS Telecom's future results will be affected by the following factors:

Continued increases in competition from wireless and other wireline providers, cable providers, satellite video providers, and technologies such as Voice over Internet Protocol ("VoIP"), DOCSIS 3.0 and further upgrades, and fourth generation ("4G") mobile technology;

Continued increases in consumer data usage and demand for high-speed data services;

Continued declines in Wireline voice connections;

Continued focus on customer retention programs, including discounting for "triple-play" bundles including broadband, video or satellite video and voice;

The expansion of Internet Protocol television ("IPTV") into additional market areas;

Continued growth in hosted and managed services which may result in the need for additional investment in data centers;

Continued focus on cost-reduction initiatives through product and service cost improvements and process efficiencies;

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The Federal government's disbursement of Broadband Stimulus Funds to bring broadband to rural customers;

The National Broadband Plan and other rulemaking by the FCC, including uncertainty related to future funding from the Universal Service Fund ("USF"), broadband requirements, intercarrier compensation and changes in access reform;

Impacts of the Bend, Baja and MSN transactions, including, but not limited to, the ability to successfully integrate and operate these businesses and the financial impacts of such transactions; and

Potential acquisitions or divestitures by TDS and/or TDS Telecom of wireline, cable, HMS, or other businesses.

See "Results of Operations TDS Telecom."

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Pro Forma Financial Information

Refer to TDS' Form 8-K filed on February 26, 2014 for pro forma financial information related to the Divestiture Transaction and the NY1 & NY2 Deconsolidation for the three and twelve months ended December 31, 2013, as if the transactions had occurred at the beginning of the respective periods.

REGULATORY MATTERS

FCC Interoperability Order

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

FCC Net Neutrality Proposal

Currently, internet services are subject to substantially less regulation than traditional common carrier telecommunications services under federal law and generally are not subject to state or local government regulation because they are currently classified as an "information service" by the FCC under the Communications Act. Internet services provided by wireless carriers may also be subject to less regulation than by other telecommunications companies. However, in 2009, the FCC initiated a rulemaking proceeding designed to codify its existing "Net Neutrality" principles to regulate how internet service providers manage applications and content that traverse their networks. In December 2010, the FCC adopted a net neutrality rule based on its Title I "ancillary" authority under the Communications Act. Among other things, these rules prohibited all internet providers from blocking consumers' access to lawful websites or applications that compete with the provider's voice or video telephony services, subject to reasonable network management. The rules subjected the providers of fixed but not wireless broadband internet access to a prohibition on "unreasonable discrimination" in transmitting internet traffic over their networks, subject to reasonable network management. On January 14, 2014, the U.S. Court of Appeals for the District of Columbia Circuit vacated the foregoing "anti-blocking" and "anti-discrimination" portions of the FCC's net neutrality rules. In May 2014, the FCC proposed revised rules, substantially similar to the vacated rules, except that the revised proposed rules would replace the prohibition of "unreasonable discrimination" with a prohibition on "commercially unreasonable practices." Following public comments on such rules and the urging of President Obama, in February 2015 the FCC chairman instead proposed applying "Title II" or telecommunications common carrier regulation to both fixed and wireless internet service providers to prevent "paid prioritization" of internet traffic to end users and to restrict wireless carriers from limiting the capacity of certain high volume data users to use the data network. If the FCC adopts such proposed rules, it is expected that they will be challenged in litigation. TDS cannot predict the outcome of these proceedings.

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FCC Spectrum Auction 97

In January 2015, the FCC released the results of Auction 97. U.S. Cellular participated in Auction 97 indirectly through its limited partnership interest in Advantage Spectrum L.P. See Note 14 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

FCC Reform Order

The Telecommunications Act authorizes and directs the FCC to establish a Universal Service Fund ("USF"), to preserve and advance universal access to telecommunications services in rural and high-cost areas of the country. All carriers with interstate and international revenues must contribute to the USF. Carriers are free to pass on the cost of such contributions to their customers. In 2014, U.S. Cellular contributed \$78.9 million into the federal USF and passed on the cost of such contributions to its customers. In 2014, TDS Telecom contributed \$12.4 million into the federal USF and passed on the cost of such contributions to its customers.

Telecommunications companies may be designated by states, or in some cases by the FCC, as an Eligible Telecommunications Carrier ("ETC") to receive universal service support payments if they provide specified services in "high cost" areas. U.S. Cellular has been designated as an ETC in certain states and received approximately \$92.1 million in high cost support for service to high cost areas in 2014. TDS Telecom also received support under USF support programs. In 2014, TDS Telecom received \$82.2 million under all the federal USF support programs.

In 2011, the FCC released an order ("Reform Order") to: reform its universal service and intercarrier compensation mechanisms; establish a new, broadband-focused support mechanism; and propose further rules to advance reform. Pursuant to the FCC's Reform Order, U.S. Cellular's ETC support has been phased down by 40% since July 1, 2012. As provided by the Reform Order, the phase down is currently suspended and U.S. Cellular will continue to receive 60% of its baseline support until a new fund provided in the Reform Order is operational. With respect to TDS Telecom, it remains unclear whether the new mechanism will provide TDS Telecom with the same level of support over time that TDS Telecom receives today. Further proceedings including litigation may also be possible. At this time, TDS cannot predict the net effect of further changes to the USF high cost support program under the Reform Order.

Multiple appeals of the Reform Order were consolidated and argued in the U.S. Court of Appeals for the 10th Circuit on November 19, 2013. The court ruled in favor of the FCC and U.S. Cellular filed a Petition of Certiorari on November 25, 2014 with the United States Supreme Court. At this time, U.S. Cellular cannot predict whether the Supreme Court will accept the case or the timing or outcome of any such decision should the Court permit the appeal.

With respect to intercarrier compensation, the Reform Order provides for a reduction in the charges that U.S. Cellular pays to wireline phone companies to transport and terminate calls that originate on their networks, which will reduce U.S. Cellular's operating expenses. The reductions in intercarrier charges are to increase over the next five to ten years, further reducing U.S. Cellular's operating expenses. With respect to TDS Telecom, the Reform Order provides for a reduction in the charges that TDS Telecom pays to wireline phone companies to transport and terminate calls that originate on TDS Telecom's network, which will reduce TDS Telecom's operating expenses. However, TDS Telecom also receives revenue from other carriers to transport and terminate calls that originate on those carriers' networks. As reductions in intercarrier charges are to increase over the next five to ten years, TDS Telecom's related revenues and operating expenses are expected to decline. The net effect of these changes is not known. Further proceedings including litigation may also be possible. TDS cannot predict whether such changes will have a material adverse effect on TDS' business, financial condition or results of operations.

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FCC Definition of Broadband Benchmark

In January 2015, the FCC redefined its "broadband" benchmark speeds as delivering at least 25 Mbps (previously 4 Mbps) for downloads and 3 Mbps (previously 1 Mbps) for uploads. These benchmarks may be used by the FCC in connection with certain FCC rules, determining eligibility for support payments, the consideration and approval by the FCC of certain transactions and other regulatory and related purposes. TDS does not use the new FCC benchmark to define broadband for purposes of disclosure of operating metrics or financial results. With respect to the Wireline segment, broadband connections represent the number of customers that are provided with high-capacity data circuits via various technologies, including fiber, DSL and dedicated internet circuit technologies. With respect to the Cable segment, broadband connections represent the billable number of lines into a building for high speed data services. See "Results of Operations TDS Telecom" below.

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RESULTS OF OPERATIONS CONSOLIDATED

Year Ended December 31, (Dollars in thousands, except per share amounts)	2014	Increase/Percentage (Decrease) Change	2013	Increase/Percentage (Decrease) Change	2012
Operating revenues					
U.S. Cellular	\$ 3,892,747	\$ (26,089) (1)%	\$ 3,918,836	\$ (533,248) (12)%	\$ 4,452,084
TDS Telecom	1,088,312	141,309 15%	947,003	92,497 11%	854,506
All other	28,379	(7,018) (20)%	35,397	(3,290) (9)%	38,687
Total operating revenues	5,009,438	108,202 2%	4,901,236	(444,041) (8)%	5,345,277
Operating expenses					
U.S. Cellular	4,036,137	264,166 7%	3,771,971	(523,457) (12)%	4,295,428
TDS Telecom	1,098,683	196,512 22%	902,171	88,407 11%	813,764
All other(1)	64,482	72,747 >100%	(8,265)	(60,487) >(100)	52,222
Total operating expenses	5,199,302	533,425 11%	4,665,877	(495,537) (10)%	5,161,414
Operating income (loss)					
U.S. Cellular	(143,390)	(290,255) >(100)%	146,865	(9,791) (6)%	156,656
TDS Telecom	(10,371)	(55,203) >(100)%	44,832	4,090 10%	40,742
All other(1)	(36,103)	(79,765) >(100)%	43,662	57,197 >100	(13,535)
Total operating income (loss)	(189,864)	(425,223) >(100)%	235,359	51,496 28%	183,863
Other income (expenses)					
Equity in earnings of unconsolidated entities	131,965	(749) (1)%	132,714	39,847 43%	92,867
Interest and dividend income	16,957	7,865 87%	9,092	(156) (2)%	9,248
Gain (loss) on investments		(14,547) N/M	14,547	18,265 >100	(3,718)
Interest expense	(111,397)	12,586 13%	(98,811)	12,066 (14)%	(86,745)
Other, net	115	152 >100%	(37)	(757) >(100)	720
Total other income (expenses)	37,640	(19,865) (35)%	57,505	45,133 >100%	12,372
Income (loss) before income taxes					
	(152,224)	(445,088) >(100)%	292,864	96,629 49%	196,235
Income tax expense (benefit)	(4,932)	(130,975) >(100)%	126,043	52,461 71%	73,582
Net income (loss)	(147,292)	(314,113) >(100)%	166,821	44,168 36%	122,653
Less: Net income (loss) attributable to noncontrolling interests, net of tax	(10,937)	(35,831) >(100)%	24,894	(15,898) (39)%	40,792

Net income (loss) attributable to TDS shareholders	(136,355)	(278,282)	>(100)%	141,927	60,066	73%	81,861
Preferred dividend requirement	(49)			(49)	1	2%	(50)

Net income (loss) available to common shareholders	\$ (136,404)	\$ (278,282)	>(100)%	\$ 141,878	\$ 60,067	73%	\$ 81,811
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Basic earnings (loss) per share attributable to TDS shareholders	\$ (1.26)	\$ (2.57)	>(100)%	\$ 1.31	\$ 0.56	75%	\$ 0.75
Diluted earnings (loss) per share attributable to TDS shareholders	\$ (1.26)	\$ (2.55)	>(100)%	\$ 1.29	\$ 0.54	72%	\$ 0.75

N/M Percentage change not meaningful

(1)

Consists of corporate and other operations and intercompany eliminations. In 2013, TDS recognized an incremental gain of \$53.5 million compared to U.S. Cellular upon closing of the Divestiture Transaction as a result of lower asset basis in the assets disposed.

Operating Revenues and Expenses

See "Results of Operations U.S. Cellular" and "Results of Operations TDS Telecom" below for factors that affected Operating revenues and expenses.

Equity in earnings of unconsolidated entities

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

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TDS' investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed \$71.8 million, \$78.4 million and \$67.2 million to Equity in earnings of unconsolidated entities in 2014, 2013 and 2012, respectively. TDS received cash distributions from the LA Partnership of \$60.5 million, \$71.5 million and \$66.0 million in 2014, 2013 and 2012, respectively.

On April 3, 2013, TDS deconsolidated the NY1 & NY2 Partnerships and began reporting them as equity method investments in its consolidated financial statements as of that date. In 2014, TDS' investment in the NY1 & NY2 Partnerships contributed \$29.0 million and in 2013, subsequent to their deconsolidation, NY1 & NY2 Partnerships contributed \$24.7 million to Equity in earnings of unconsolidated entities. No amounts were included in 2012 because the NY1 & NY2 Partnerships were consolidated in that year. Distributions from the NY1 & NY2 Partnerships of \$26.8 million in 2014, and \$29.4 in 2013, are included in Distributions from unconsolidated entities on the Consolidated Statement of Cash Flows.

Interest and dividend income

In 2014, Interest and dividend income increased by \$7.9 million due primarily to imputed interest income recognized on Equipment Installment Plans. See Note 3 Equipment Installment Plans in the Notes to Consolidated Financial Statements for additional information.

Gain (loss) on investments

In connection with the deconsolidation of the NY1 & NY2 Partnerships, TDS recognized a non-cash pre-tax gain of \$14.5 million which was recorded in Gain (loss) on investments in 2013. See Note 8 Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

Loss on investment in 2012 includes a provision for loss of \$3.7 million related to a note receivable and preferred stock acquired by U.S. Cellular in connection with an acquisition in 1998.

Interest expense

In 2014, Interest expense increased \$12.6 million from 2013 due primarily to a decrease in capitalized interest related to network and systems projects. In 2013, interest expense increased \$12.1 million due primarily to the issuance of TDS' 5.875% Senior Notes in November 2012 for \$195.0 million. This amount was partially offset by an increase in capitalized interest during 2013.

Income tax expense

The effective tax rates on Income before income taxes and extraordinary items ("pre-tax income") for 2014, 2013 and 2012 were 3.2%, 43.0% and 37.5%, respectively. The following significant discrete and other items impacted income tax expense for these years:

2014 Includes tax expense of \$38.5 million related to valuation allowances recorded against certain state deferred tax assets, an increase to tax expense of \$18.3 million due to a nondeductible impairment of Goodwill, and a tax benefit of \$10.8 million related to a release of valuation allowance on federal net operating losses previously limited under loss utilization rules. The effective tax rate in 2014 is lower due to the effect of these items combined with the loss in 2014 in Income (loss) before income taxes.

2013 Includes tax expense of \$14.9 million related to the NY1 & NY2 Deconsolidation and the Divestiture Transaction, and a tax benefit of \$5.5 million resulting from statute of limitation expirations.

2012 Includes tax benefits of \$11.3 million resulting from statute of limitation expirations and \$6.1 million resulting from corrections relating to prior periods, offset by tax expense of \$1.3 million related to state income tax audits and tax expense associated with increases to state deferred tax asset valuation allowances of \$5.2 million.

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See Note 4 Income Taxes in the Notes to Consolidated Financial Statements for further information on the effective tax rate.

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

Net income (loss) attributable to noncontrolling interests, net of tax includes the noncontrolling public shareholders' share of U.S. Cellular's net income (loss), the noncontrolling shareholders' or partners' share of certain U.S. Cellular subsidiaries' net income (loss) and other TDS noncontrolling interests.

Year Ended December 31, (Dollars in thousands)	2014	2013	2012
Net income (loss) attributable to noncontrolling interests, net of tax U.S. Cellular			
Noncontrolling public shareholders'(1)	\$ (6,826)	\$ 21,775	\$ 18,431
Noncontrolling shareholders' or partners'(1)(2)	(4,111)	3,119	22,361
	\$ (10,937)	\$ 24,894	\$ 40,792

(1) The decrease in 2014 is due primarily to decreased income from certain partnerships and U.S. Cellular.

(2) The decrease in 2013 is due primarily to the elimination of the noncontrolling interest as a result of the NY1 & NY2 Deconsolidation on April 3, 2013.

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RESULTS OF OPERATIONS U.S. CELLULAR

TDS provides wireless telephone service through U.S. Cellular, an 84%-owned subsidiary. U.S. Cellular owns, manages and invests in wireless markets throughout the United States.

Summary Operating Data for U.S. Cellular Consolidated Markets

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

As of or for the Year Ended December 31,	2014	2013	2012
Retail Customers			
Postpaid			
Total at end of period	4,298,000	4,267,000	5,134,000
Gross additions	940,000	697,000	880,000
Net additions (losses)	31,000	(325,000)	(165,000)
ARPU(1)	\$ 56.75	\$ 54.31	\$ 54.32
ARPA(2)	\$ 133.19	\$ 120.92	\$ 123.27
Churn rate(3)	1.8%	1.8%	1.7%
Smartphone penetration(4)	59.8%	50.8%	41.8%
Prepaid			
Total at end of period	348,000	343,000	423,000
Gross additions	274,000	309,000	368,000
Net additions (losses)	5,000	(21,000)	118,000
ARPU(1)	\$ 34.07	\$ 31.44	\$ 33.26
Churn rate(3)	6.4%	7.0%	6.0%
Total customers at end of period	4,760,000	4,774,000	5,798,000
Billed ARPU(1)	\$ 53.49	\$ 50.73	\$ 50.81
Service revenue ARPU(1)	\$ 60.32	\$ 57.61	\$ 58.70
Smartphones sold as a percent of total handsets sold	81.3%	72.8%	58.7%
Total Population			
Consolidated markets(5)	50,906,000	58,013,000	93,244,000
Consolidated operating markets(5)	31,729,000	31,759,000	46,966,000
Market penetration at end of period			
Consolidated markets(6)	9.4%	8.2%	6.2%
Consolidated operating markets(6)	15.0%	15.0%	12.3%
Capital expenditures (000s)	\$ 557,615	\$ 737,501	\$ 836,748
Total cell sites in service	6,220	6,975	8,028
Owned towers in service	4,281	4,448	4,408

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Summary Operating Data for U.S. Cellular Core Markets

Following is a table of summarized operating data for U.S. Cellular's Core Markets. For comparability, Core Markets as presented here excludes the results of the Divestiture Markets and NY1 and NY2 Partnerships as of or for the twelve months ended December 31, 2013 and December 31, 2012.

As of or for the Year Ended December 31,	2014	2013	2012
Retail Customers			
Postpaid			
Total at end of period	4,298,000	4,267,000	4,496,000
Gross additions	940,000	682,000	746,000
Net additions (losses)	31,000	(217,000)	(92,000)
ARPU(1)	\$ 56.75	\$ 54.23	\$ 53.65
ARPA(2)	\$ 133.19	\$ 115.00	\$ 120.78
Churn rate(3)	1.8%	1.7%	1.5%
Smartphone penetration(4)	59.8%	50.8%	41.1%
Prepaid			
Total at end of period	348,000	343,000	342,000
Gross additions	274,000	295,000	288,000
Net additions (losses)	5,000	2,000	124,000
ARPU(1)	\$ 34.07	\$ 31.45	\$ 32.98
Churn rate(3)	6.4%	6.7%	5.2%
Total customers at end of period	4,760,000	4,774,000	5,022,000
Billed ARPU(1)	\$ 53.49	\$ 50.82	\$ 50.54
Service revenue ARPU(1)	\$ 60.32	\$ 57.66	\$ 58.49
Smartphones sold as a percent of total handsets sold	81.3%	73.0%	58.9%
Total Population			
Consolidated markets(5)	50,906,000	58,013,000	83,384,000
Consolidated operating markets(5)	31,729,000	31,759,000	31,445,000
Market penetration at end of period			
Consolidated markets(6)	9.4%	8.2%	6.0%
Consolidated operating markets(6)	15.0%	15.0%	16.0%
Capital expenditures (000s)	\$ 557,615	\$ 735,082	\$ 768,884
Total cell sites in service	6,220	6,161	6,130
Owned towers in service	3,951	3,883	3,847

- (1) Average Revenue per User ("ARPU") metrics are calculated by dividing a revenue base by an average number of customers by the number of months in the period. These revenue bases and customer populations are shown below:
- Postpaid ARPU consists of total postpaid service revenues and postpaid customers.
 - Prepaid ARPU consists of total prepaid service revenues and prepaid customers.
 - Billed ARPU consists of total postpaid, prepaid and reseller service revenues and postpaid, prepaid and reseller customers.
 - Service revenue ARPU consists of total postpaid, prepaid and reseller service revenues, inbound roaming and other service revenues and postpaid, prepaid and reseller customers.

(2)

Average Revenue per Account ("ARPA") metric is calculated by dividing total postpaid service revenues by the average number of postpaid accounts by the number of months in the period.

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- (3) Churn metrics represent the percentage of the postpaid or prepaid customers that disconnects service each month. These metrics represent the average monthly postpaid or prepaid churn rate for each respective period.
- (4) Smartphones represent wireless devices which run on an Android, Apple, BlackBerry or Windows Mobile operating system, excluding connected devices. Smartphone penetration is calculated by dividing postpaid smartphone customers by total postpaid customers.
- (5) The decrease in the population of consolidated markets is due primarily to the divestiture of the Mississippi Valley non-operating license in October 2013, the majority of the St. Louis area non-operating market license in March 2014, and certain non-operating licenses in North Carolina in December 2014. Total Population is used only to calculate market penetration of consolidated markets and consolidated operating markets, respectively. See footnote (6) below.
- (6) Market penetration is calculated by dividing the number of wireless customers at the end of the period by the total population of consolidated markets and consolidated operating markets, respectively, as estimated by Claritas. The increase in consolidated markets penetration is due primarily to a lower denominator as a result of the license divestitures described in footnote (5) above.

Components of Operating Income (Loss)

Year Ended December 31, (Dollars in thousands)	2014	Increase/ (Decrease)	Percentage Change	2013	Increase/ (Decrease)	Percentage Change	2012
Retail service	\$ 3,012,984	\$ (152,512)	(5)%	\$ 3,165,496	\$ (382,483)	(11)%	\$ 3,547,979
Inbound roaming	224,090	(39,096)	(15)%	263,186	(85,531)	(25)%	348,717
Other	160,863	(5,228)	(3)%	166,091	(36,069)	(18)%	202,160
Service revenues	3,397,937	(196,836)	(5)%	3,594,773	(504,083)	(12)%	4,098,856
Equipment sales	494,810	170,747	53%	324,063	(29,165)	(8)%	353,228
Total operating revenues	3,892,747	(26,089)	(1)%	3,918,836	(533,248)	(12)%	4,452,084
System operations (excluding Depreciation, amortization and accretion reported below)	769,911	6,476	1%	763,435	(183,370)	(19)%	946,805
Cost of equipment sold	1,192,669	193,669	19%	999,000	63,053	7%	935,947
Selling, general and administrative	1,591,914	(85,481)	(5)%	1,677,395	(87,538)	(5)%	1,764,933
Depreciation, amortization and accretion	605,997	(197,784)	(25)%	803,781	195,148	32%	608,633
(Gain) loss on asset disposals, net	21,469	9,137	30%	30,606	(12,518)	(69)%	18,088
(Gain) loss on sale of business and other exit costs, net	(32,830)	(213,937)	(87)%	(246,767)	267,789	>100%	21,022
(Gain) loss on license sales and exchanges	(112,993)	(142,486)	(56)%	(255,479)	255,479	N/M	

Total operating expenses	4,036,137	264,166	7%	3,771,971	(523,457)	(12)%	4,295,428
Operating income (loss)	\$ (143,390)	\$ (290,255)	>(100)%	\$ 146,865	\$ (9,791)	(6)%	\$ 156,656

N/M Percentage change not meaningful

Operating Revenues

Service revenues

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

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Retail service revenues

Retail service revenues decreased by \$152.5 million, or 5%, to \$3,013.0 million due primarily to a decrease in U.S. Cellular's average customer base (including the reductions caused by the Divestiture Transaction and NY1 & NY2 Deconsolidation), partially offset by an increase in billed ARPU.

In 2013, Retail service revenues decreased by \$382.5 million, or 11%, to \$3,165.5 million due primarily to a decrease in U.S. Cellular's average customer base (including the reductions caused by the Divestiture Transaction and NY1 & NY2 Deconsolidation) and a slight decrease in billed ARPU. 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 Operating revenues in the Consolidated Statement of Operations and increased Customer deposits and deferred revenues in the Consolidated Balance Sheet.

Billed ARPU increased to \$53.49 in 2014 from \$50.73 in 2013. This overall increase is due primarily to an increase in postpaid ARPU to \$56.75 in 2014 from \$54.31 in 2013 and an increase in prepaid ARPU to \$34.07 in 2014 from \$31.44 in 2013, reflecting an increase in smartphone penetration and corresponding revenues from data products and services, partially offset by lower monthly service billings for customers on equipment installment plans. Billed ARPU in 2013 was relatively flat compared to \$50.81 in 2012. An increase in smartphone adoption and corresponding revenues from data products and services drove higher ARPU; however, this growth was offset by the special issuance of loyalty rewards points in the fourth quarter of 2013, which negatively impacted billed ARPU for the year by \$0.70.

U.S. Cellular expects continued pressure on retail service revenues in the foreseeable future due to industry competition for customers and related effects on pricing of service plan offerings offset to some degree by continued adoption of smartphones and data usage. In addition, beginning in the second quarter of 2014, U.S. Cellular expanded its offerings of equipment installment plans. To the extent that customers adopt these plans, U.S. Cellular expects an increase in equipment sales revenues. However, certain of the equipment installment plans provide the customer with a reduction in the monthly access charge for the device; thus, to the extent that existing customers adopt such plans, U.S. Cellular expects a reduction in retail service revenues and ARPU.

Inbound roaming revenues

Inbound roaming revenues decreased by \$39.1 million, or 15% in 2014 to \$224.1 million. The decrease was due in part to a \$17.6 million impact related to the Divestiture Transaction and NY1 & NY2 Deconsolidation recorded in 2013. The remaining decrease in the Core Markets was due to a decrease in rates and a decline in voice volume, partially offset by higher data usage. U.S. Cellular expects modest growth in data volume, declining voice volumes and declining rates which likely will result in declining inbound roaming revenues in the near term. Both inbound and outbound roaming rates are subject to periodic revision; further, U.S. Cellular is negotiating 4G LTE roaming rates with several carriers which could materially affect roamer revenues and expenses going forward.

Inbound roaming revenues decreased by \$85.5 million, or 25% in 2013 to \$263.2 million. The decrease was due primarily to lower rates (\$47.9 million) and the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation (\$37.6 million). Data volume increased year-over-year but the impact of this increase was offset by the combined impacts of lower volume for voice and lower rates for both data and voice. The decline in roaming revenues was offset by a decline in roaming expense also due to lower rates.

Other revenues

Other revenues of \$160.9 million in 2014 decreased by \$5.2 million, or 3%, compared to 2013 due to a \$14.8 million decrease in ETC support, partially offset by an increase in tower rental revenue. Tower

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rental revenue was \$55.5 million and \$45.7 million in 2014 and 2013, respectively. In 2013, Other revenues decreased by \$36.1 million, or 18%, due primarily to a decrease in ETC support.

Equipment sales revenues

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

U.S. Cellular offers a competitive line of quality wireless devices to both new and existing customers. U.S. Cellular's customer acquisition and retention efforts include offering new wireless devices to customers at discounted prices; in addition, customers on currently offered rate plans receive loyalty reward points that may be used to purchase a new wireless device or accelerate the timing of a customer's eligibility for a wireless device upgrade at promotional pricing. U.S. Cellular also continues to sell wireless devices to agents including national retailers; this practice enables U.S. Cellular to provide better control over the quality of wireless devices sold to its customers, establish roaming preferences and earn quantity discounts from wireless device manufacturers which are passed along to agents and other retailers.

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

Equipment sales revenues increased \$170.7 million, or 53%, to \$494.8 million in 2014. Equipment sales revenues in 2014 include \$190.4 million related to equipment installment plan sales. The increase is due primarily to an increase in average revenue per device sold (including the impact of sales under equipment installment plans) and sales of connected devices and accessories. This increase is partially offset by a decrease in the sales of other device categories, primarily the feature phone category, and the effects of the Divestiture Transaction and the NY1 & NY2 Deconsolidation.

The decrease in 2013 equipment sales revenues of \$29.2 million, or 8%, to \$324.1 million was driven primarily by selling fewer devices, partially due to the Divestiture Transaction. Declines in volume were offset by an increase of 12% in average revenue per device. Average revenue per wireless device sold increased due to a continued shift in customer preference to higher priced smartphones.

Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

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

System operations expenses increased \$6.5 million, or 1%, to \$769.9 million in 2014 and decreased \$183.4 million, or 19%, to \$763.4 million in 2013. Key components of the net changes in System operations expenses were as follows:

Maintenance, utility and cell site expenses increased \$26.6 million, or 8%, in 2014 and decreased \$61.6 million, or 15%, in 2013. The increase in 2014 reflects higher support costs for the expanded 4G LTE network and completion of certain maintenance projects deferred from 2013, partially offset by the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation. The decrease in 2013 is driven primarily by impacts of the Divestiture Transaction and reductions in expenses related to 3G equipment

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support and network costs, offset by increases in charges related to 4G LTE equipment and network costs.

Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased \$5.8 million, or 3%, in 2014 and decreased \$64.1 million, or 27%, in 2013. The increase in 2014 is driven primarily by an increase in data roaming usage, partially offset by lower rates, lower voice usage, and the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation. The decrease in 2013 is due primarily to lower rates for both voice and data and lower voice volume, which more than offset increased data roaming usage, as well as the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation.

Customer usage expenses decreased by \$25.9 million, or 11%, in 2014, and \$57.7 million, or 19%, in 2013. The decrease in 2014 is driven by impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation, lower volume and rates for long distance usage and lower fees for platform and content providers, partially offset by LTE migration costs. The decrease in 2013 is driven by impacts of the Divestiture Transaction and decreases in intercarrier charges as a result of the FCC's Reform Order and certain data costs, partially offset by increases due to network costs for 4G LTE.

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

Cost of equipment sold

Cost of equipment sold increased \$193.7 million, or 19%, in 2014 and \$63.1 million, or 7% in 2013. In both years, the increase was driven primarily by an increase in the average cost per wireless device sold (22% in 2014 and 33% in 2013), which more than offset the impact of selling fewer devices. Average cost per device sold increased due to general customer preference for higher priced 4G LTE smartphones and tablets. Smartphones sold as a percentage of total devices sold were 73%, 68% and 56% in 2014, 2013 and 2012, respectively. The total number of devices sold decreased by 3% and 18% in 2014 and 2013, respectively, partially due to the Divestiture Transaction.

U.S. Cellular's loss on equipment, defined as equipment sales revenues less cost of equipment sold, was \$697.9 million, \$674.9 million and \$582.7 million for 2014, 2013 and 2012, respectively. U.S. Cellular expects loss on equipment to continue to be a significant cost in the foreseeable future as iconic data-centric wireless devices continue to increase in cost and wireless carriers continue to use device availability and pricing as a means of competitive differentiation. However, U.S. Cellular expects that sales of wireless devices under equipment installment plans and, for certain devices such as tablets, under non-subsidized plans, will offset loss on equipment to some degree.

Selling, general and administrative expenses

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

Selling, general and administrative expenses decreased by \$85.5 million to \$1,591.9 million in 2014 and by \$87.5 million to \$1,677.4 million in 2013. Key components of the net changes in Selling, general and administrative expenses were as follows:

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2014

General and administrative expenses decreased by \$79.7 million, or 8%, due primarily to the Divestiture Transaction and NY1 & NY2 Deconsolidation and lower consulting expenses related to the billing system conversion in the prior year.

Selling and marketing expenses decreased by \$5.7 million, or 1%, due primarily to lower agent, employee and facilities costs as a result of the Divestiture Transaction, partially offset by increases in advertising expense and commissions; higher commissions reflected increases in gross additions, renewals and accessory sales volumes.

2013

Selling and marketing expenses decreased by \$75.7 million, or 9%, primarily from lower commission expenses, more cost-effective advertising spending and reduced employee and facilities costs as a result of the Divestiture Transaction.

General and administrative expenses decreased by \$11.8 million, or 1%, driven by corporate cost containment and reduction initiatives and reduced spending as a result of the Divestiture Transaction, offset by costs associated with launching the new billing system of \$55.8 million and higher bad debts expense of \$31.5 million due to higher customer accounts receivable balances resulting from billing issues experienced after the system conversion.

Depreciation, amortization and accretion

Depreciation, amortization and accretion expense decreased \$197.8 million, or 25%, in 2014, due primarily to the higher amount of accelerated depreciation, amortization and accretion in the Divestiture Markets that occurred in 2013. Depreciation, amortization and accretion expense increased \$195.1 million, or 32%, in 2013 due primarily to the acceleration of depreciation, amortization and accretion in the Divestiture Markets. The impact of the acceleration was \$13.1 million and \$158.5 million in 2014 and 2013, respectively. The accelerated depreciation, amortization and accretion in the Divestiture Markets was completed in the first quarter of 2014.

(Gain) loss on asset disposals, net

(Gain) loss on asset disposals, net was a loss of \$21.5 million in 2014 and \$30.6 million in 2013 due primarily to losses resulting from the write-off and disposals of certain network assets.

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

(Gain) loss on sale of business and other exit costs, net was a gain of \$32.8 million in 2014 and \$246.8 million in 2013, both primarily related to the Divestiture Transaction. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

(Gain) loss on license sales and exchanges

(Gain) loss on license sales and exchanges was a net gain in 2014 resulting from the sale of the St. Louis area non-operating market license and the license exchanges primarily in Wisconsin, Oklahoma, North Carolina and Tennessee. The gain in 2013 resulted from the sale of the Mississippi Valley non-operating market license for \$308.0 million, which resulted in a pre-tax gain of \$250.6 million. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

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TDS conducts its Wireline, Cable and HMS operations through TDS Telecom, a wholly-owned subsidiary. The following table summarizes operating data for Wireline and Cable operations:

As of or for the year ended December 31,	2014	2013	2012
<u>Wireline</u>			
Residential connections			
Voice(1)	335,900	352,100	374,700
Broadband(2)	229,200	227,000	229,900
IPTV(3)	23,400	13,800	7,900
Wireline residential connections	588,500	592,900	612,500
Total residential revenue per connection(4)	\$ 41.22	\$ 40.53	\$ 39.65
Commercial connections			
Voice(1)	193,200	218,400	243,100
Broadband(2)	24,700	27,100	29,700
managedIP(5)	140,200	127,600	94,600
Wireline commercial connections	358,100	373,100	367,400
Total Wireline connections	946,600	966,000	979,900
<u>Cable</u>			
Cable connections			
Video(6)	110,400	69,100	
Broadband(7)	110,900	61,000	
Voice(7)	46,000	17,200	
Cable connections	267,300	147,300	

(1) The individual circuit connecting a customer to TDS Telecom's central office facilities.

(2) The number of customers provided high-capacity data circuits via various technologies, including DSL and dedicated internet circuit technologies.

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- (3) The number of customers provided video services using IP networking technology.
- (4) Total residential revenue divided by the average number of total residential connections.
- (5) The number of telephone handsets, data lines and IP trunks providing communications using IP networking technology.
- (6) Generally, a home or business receiving video programming counts as one video connection. In counting bulk residential or commercial connections, such as an apartment building or a hotel, connections are counted based on the number of units/rooms within the building receiving service.
- (7) Broadband and voice connections reflect billable number of lines into a building for high speed data and voice services, respectively.

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TDS Telecom Total (Wireline, Cable and HMS Operations)

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2014	Increase (Decrease)	Percentage Change	2013	Increase (Decrease)	Percentage Change	2012
Operating revenues							
Wireline	\$ 716,422	\$ (10,145)	(1)%	\$ 726,567	\$ (15,181)	(2)%	\$ 741,748
Cable	116,855	80,972	>100%	35,883	35,883	N/M	
HMS	258,732	73,116	39%	185,616	72,606	64%	113,010
Intra-company elimination	(3,697)	(2,634)	>(100)%	(1,063)	(811)	>(100)%	(252)
TDS Telecom operating revenues	1,088,312	141,309	15%	947,003	92,497	11%	854,506
Operating expenses							
Wireline	617,948	(43,613)	(7)%	661,561	(21,805)	(3)%	683,366
Cable	116,565	80,638	>100%	35,927	35,927	N/M	
HMS	367,867	162,121	79%	205,746	75,096	57%	130,650
Intra-company elimination	(3,697)	(2,634)	>(100)%	(1,063)	(811)	>(100)%	(252)
TDS Telecom operating expenses	1,098,683	196,512	22%	902,171	88,407	11%	813,764
TDS Telecom operating income (loss)	\$ (10,371)	\$ (55,203)	>(100)%	\$ 44,832	\$ 4,090	10%	\$ 40,742

N/M Not meaningful

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Telephone and Data Systems, Inc.

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Wireline Operations

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2014			2013			2012
		Increase (Decrease)	Percentage Change		Increase (Decrease)	Percentage Change	
Service revenues							
Residential	\$ 293,302	\$ 85		\$ 293,217	\$ (3,375)	(1)%	\$ 296,592
Commercial	229,308	(407)		229,715	2,774	1%	226,941
Wholesale	191,976	(8,464)	(4)%	200,440	(14,243)	(7)%	214,683
Total service revenues	714,586	(8,786)	(1)%	723,372	(14,844)	(2)%	738,216
Equipment and product sales	1,836	(1,359)	(43)%	3,195	(337)	(10)%	3,532
Total operating revenues	716,422	(10,145)	(1)%	726,567	(15,181)	(2)%	741,748
Cost of services (excluding depreciation, amortization and accretion reported below)	256,878	(9,757)	(4)%	266,635	(3,698)	(1)%	270,333
Cost of equipment and products	2,336	(1,495)	(39)%	3,831	99	3%	3,732
Selling, general and administrative	189,956	(30,141)	(14)%	220,097	(15,619)	(7)%	235,716
Depreciation, amortization and accretion	169,044	(1,824)	(1)%	170,868	(1,658)	(1)%	172,526
(Gain) loss on asset disposals, net	2,091	1,961	>100%	130	(890)	(87)%	1,020
(Gain) loss on sale of business and other exit costs, net	(2,357)	(2,357)	N/M		(39)	N/M	39
Total operating expenses	617,948	(43,613)	(7)%	661,561	(21,805)	(3)%	683,366
Total operating income	\$ 98,474	\$ 33,468	51%	\$ 65,006	\$ 6,624	11%	\$ 58,382

N/M Not meaningful

Operating Revenues

Residential revenues consist of broadband, video and voice services to Wireline's residential customer base.

Residential revenues were relatively unchanged from the prior year at \$293.3 million in 2014. Legacy voice connections declined by 5%, decreasing revenues by \$7.1 million, while IPTV connections grew 73% increasing revenues \$6.6 million. A 1% increase in average revenue per residential connection driven by price increases for broadband services, growth in customers opting for faster broadband speeds and growth in customers selecting higher tier IPTV packages increased revenues \$1.8 million.

Residential revenues decreased \$3.4 million or 1% to \$293.2 million in 2013. A 3% reduction in the number of average residential connections reduced revenues by \$7.9 million partially offset by a \$5.2 million increase due to growth in average revenue per residential connection of 2%. The growth in average revenue per residential connection was mainly driven by broadband price increases, growth in customers opting for faster broadband speeds and the growth of customers selecting higher tier IPTV packages.

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Commercial revenues consist of broadband and voice services and sales and installation of IP-based telecommunications systems to Wireline's commercial customer base.

Commercial revenues were relatively unchanged from the prior year at \$229.3 million in 2014. Decreases in revenue from declining legacy voice and data connections exceeded increases in revenues from a 19% growth in average managedIP connections by \$3.1 million. A 1% increase in average revenue per connection driven by price increases on legacy voice and data services and managedIP customers moving to higher speed data services increased commercial revenues \$2.8 million.

Commercial revenues increased \$2.8 million or 1% to \$229.7 million in 2013. A 2% increase in average commercial connections, which was driven by the 49% growth in managedIP as customers converted from traditional voice and data connections, increased revenues by \$4.4 million. This increase was partially offset by a 1% decline in average revenue per commercial connection, primarily driven by lower managed IP rates, which decreased revenues \$2.7 million.

Wholesale revenues consist of compensation from other carriers for utilizing TDS Telecom's network infrastructure and regulatory recoveries.

Wholesale revenues decreased \$8.5 million or 4% to \$192.0 million in 2014. Revenues received through inter-state and intra-state regulatory recovery mechanisms decreased \$6.9 million. Wholesale revenues declined \$2.7 million due to a 10% reduction in intra-state minutes-of-use.

Wholesale revenues decreased \$14.2 million or 7% to \$200.4 million in 2013. Network access revenues decreased \$6.8 million in 2013 as a result of changes in support mechanisms and in intercarrier compensation resulting from the Reform Order released by the FCC in November 2011. Wholesale revenues also declined \$5.3 million due to a 15% reduction in intra-state minutes-of-use.

Operating Expenses

Cost of services (excluding Depreciation, amortization and accretion)

Cost of services decreased \$9.8 million or 4% to \$256.9 million in 2014. Costs of providing long-distance services, provisioning circuits and purchasing unbundled network elements decreased by \$9.6 million and employee expenses decreased by \$5.0 million primarily due to reductions in employees. Charges related to the growth in IPTV increased cost of services \$4.5 million.

Cost of services decreased \$3.7 million or 1% to \$266.6 million in 2013 due primarily to a \$5.5 million decrease in costs of providing long distance services and promotional giveaways. In addition, carrier interconnection charges decreased \$2.3 million as a result of lower access charges that became effective related to the Reform Order. Employee expense decreased \$1.1 million due to a reduction in employees. Offsetting the decreases were increases in charges related to IPTV expansion.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased \$30.1 million or 14% to \$190.0 million in 2014 due to cost control efforts. Employee expenses decreased \$18.1 million primarily due to reductions in employees and consulting and IT maintenance charges decreased \$2.5 million and \$2.1 million, respectively. Federal USF charges decreased \$3.0 million.

Selling, general and administrative expenses decreased \$15.6 million or 7% to \$220.1 million in 2013 due primarily to decreases in employee expenses, Federal USF contributions due to lower revenues, bad debts, and property taxes.

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Cable Operations

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2014(2)	Increase/ (Decrease)	Percentage Change	2013(1)
Service revenues				
Residential	\$ 93,985	\$ 64,969	>100%	\$ 29,016
Commercial	22,870	16,003	>100%	6,867
Total operating revenues	116,855	80,972	>100%	35,883
Cost of services (excluding Depreciation, amortization and accretion reported below)				
Selling, general and administrative expenses	54,265	36,991	>100%	17,274
Depreciation, amortization and accretion	36,175	25,121	>100%	11,054
(Gain) loss on asset disposals, net	23,643	16,072	>100%	7,571
	2,482	2,454	>100%	28
Total operating expenses	116,565	80,638	>100%	35,927
Total operating income (loss)	\$ 290	\$ 334	N/M	\$ (44)

(1) Represents the operations of Baja from August 1, 2013 (date of acquisition) to December 31, 2013.

(2) Represents the operations of Baja for twelve months and Bend from September 1, 2014 (date of acquisition) to December 31, 2014.

Operating Revenues

Residential revenues consist of broadband, video and voice services to Cable's residential customer base.

Residential revenues increased \$65.0 million to \$94.0 million in 2014 due primarily to \$63.8 million of revenues from acquisitions.

In 2013, Cable generated revenues of \$29.0 million since the acquisition.

Commercial revenues consist of broadband, video and voice services to Cable's commercial customer base.

Commercial revenues increased \$16.0 million to \$22.9 million in 2014 due primarily to \$15.6 million of revenues from acquisitions.

In 2013, Cable generated revenues of \$6.9 million since the acquisition.

Operating Expenses

Cost of services (excluding Depreciation, amortization and accretion)

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Cost of services (excluding Depreciation, amortization and accretion) increased \$37.0 million to \$54.3 million in 2014 due primarily to \$35.2 million of costs from acquisitions.

In 2013, cost of services (excluding Depreciation, amortization and accretion) of \$17.3 million were incurred for programming costs and expenses related to the delivery and support of services since the acquisition.

Table of Contents**Telephone and Data Systems, Inc.****Management's Discussion and Analysis of Financial Condition and Results of Operations*****Selling, general and administrative expenses***

Selling, general and administrative expenses increased \$25.1 million to \$36.2 million in 2014 due primarily to \$24.8 million of costs from acquisitions.

In 2013, selling, general and administrative expenses of \$11.1 million included legal and consulting costs of \$2.0 million related to the acquisition.

Depreciation, amortization and accretion expense

Depreciation, amortization and accretion expense increased \$16.1 million to \$23.6 million in 2014 due primarily to \$15.1 million of costs from acquisitions, including \$5.1 million of amortization of customer lists and trade names.

In 2013, depreciation, amortization and accretion expense of \$7.6 million was incurred since the acquisition. Amortization of the acquired customer list and trade name contributed \$3.0 million of expense.

HMS Operations**Components of Operating Income**

Year Ended December 31, (Dollars in thousands)	2014			2013			2012
		Increase (Decrease)	Percentage Change		Increase (Decrease)	Percentage Change	
Service revenues	\$ 109,766	\$ 14,891	16%	\$ 94,875	\$ 17,779	23%	\$ 77,096
Equipment and product sales	148,966	58,225	64%	90,741	54,827	>100%	35,914
Total operating revenues	258,732	73,116	39%	185,616	72,606	64%	113,010
Cost of services (excluding depreciation, amortization and accretion reported below)	77,392	16,969	28%	60,423	13,587	29%	46,836
Cost of equipment and products	126,362	50,371	66%	75,991	47,046	>100%	28,945
Selling, general and administrative	53,020	8,075	18%	44,945	10,752	31%	34,193
Depreciation, amortization and accretion	26,912	2,650	11%	24,262	3,694	18%	20,568
Loss on impairment of assets	84,000	84,000	N/M			N/M	
(Gain) loss on asset disposals, net	181	56	45%	125	17	16%	108
Total operating expenses	367,867	162,121	79%	205,746	75,096	57%	130,650
Total operating income (loss)	\$ (109,135)	\$ (89,005)	>(100)%	\$ (20,130)	\$ (2,490)	(14)%	\$ (17,640)

N/M Not meaningful

Operating Revenues

Service revenues consist primarily of colocation, cloud computing and hosted managed services, application management, and installation and management of IT infrastructure hardware solutions.

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Service revenues increased \$14.9 million or 16% to \$109.8 million in 2014. Acquisitions contributed \$11.5 million of this increase. The remaining increase was due primarily to 6% growth in recurring services consisting of colocation, dedicated hosting, hosted application management and cloud computing services.

Service revenues increased \$17.8 million to \$94.9 million in 2013. Acquisitions contributed \$9.2 million of incremental service revenues with the remaining increase due to 10% growth in recurring services.

Equipment and product sales include revenues from sales of IT infrastructure hardware solutions.

Equipment and product sales increased \$58.2 million to \$149.0 million in 2014. Acquisitions contributed \$73.6 million of incremental equipment and product sales. Lower cyclical spending by existing customers resulted in a decrease in equipment sales of \$15.4 million.

Equipment and product sales increased \$54.8 million to \$90.7 million in 2013 due to acquisitions.

Operating Expenses

Cost of services (excluding Depreciation, amortization and accretion)

Cost of services increased \$17.0 million to \$77.4 million in 2014. Cost of services increased \$8.4 million as a result of acquisitions. Employee related expenses, data center maintenance and software costs also increased to support growth in services provided to customers.

Cost of services increased \$13.6 million to \$60.4 million in 2013. Acquisitions increased Cost of services \$1.9 million. Employee related expense also increased in 2013 by \$5.7 million in addition to increased data center costs to support revenue growth.

Cost of equipment and products

Cost of equipment and products increased \$50.4 million to \$126.4 million in 2014 due to \$62.6 million in costs from acquisitions. Cyclical spend by existing customers resulted in a decrease in Cost of equipment and products sold of \$12.2 million.

Cost of equipment and products increased \$47.0 million to \$76.0 million in 2013 due to acquisitions.

Selling, general and administrative expense

Selling, general and administrative expense increased \$8.1 million to \$53.0 million in 2014 due primarily to \$11.6 million from acquisitions.

Selling, general and administrative expense increased \$10.8 million to \$44.9 million in 2013. Costs from acquisitions increased Selling, general and administrative expense \$10.6 million.

Depreciation, amortization and accretion expense

Depreciation, amortization and accretion expense increased \$2.7 million to \$26.9 million due primarily to customer list amortization costs from acquisitions.

Depreciation, amortization and accretion expense increased \$3.7 million to \$24.3 million in 2013 due primarily to acquisitions. Customer list and trade name amortization contributed \$2.2 million of the increase in 2013.

Loss on Impairment of Assets

As a result of interim testing performed during the third quarter of 2014, TDS determined the carrying value of the HMS goodwill exceeded the implied fair value of goodwill. As a result, an \$84.0 million impairment loss was recognized.

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Management believes that inflation affects TDS' business to no greater or lesser extent than the general economy.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

In general, recently issued accounting pronouncements did not have and are not expected to have a significant effect on TDS' financial condition and results of operations, except for Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*. TDS is evaluating the effects of adoption of this standard on its financial condition and results of operations.

LIQUIDITY AND CAPITAL RESOURCES**CASH FLOWS**

TDS operates a capital- and marketing-intensive business. TDS utilizes cash on hand, cash from operating activities, cash proceeds from divestitures and disposition of investments, short-term credit facilities and long-term debt financing to fund its acquisitions (including licenses), construction costs, operating expenses and share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions and divestitures, capital expenditures and other factors. The table below and the following discussion summarize TDS' cash flow activities in 2014, 2013 and 2012.

	2014	2013	2012
(Dollars in thousands)			
Cash flows from (used in)			
Operating activities	\$ 394,812	\$ 494,610	\$ 1,105,172
Investing activities	(909,744)	(260,653)	(998,069)
Financing activities	156,819	(144,424)	70,103
Net increase (decrease) in cash and cash equivalents	\$ (358,113)	\$ 89,533	\$ 177,206

Cash Flows from Operating Activities

Cash flows from operating activities were \$394.8 million in 2014 and \$494.6 million in 2013. The net decrease reflected higher earnings excluding the gains recognized on the sale of businesses and the gains recognized on license sales and exchanges, which had the impact of improving cash flows from operating activities, more than offset by changes in working capital, which had the impact of decreasing cash flows from operating activities. Working capital factors which significantly decreased cash flows from operating activities included changes in accounts payable levels year-over-year as a result of timing differences related to operating expenses and device purchases. In December 2014, as part of the Tax Increase Prevention Act of 2014, bonus depreciation was enacted which allowed TDS to take certain additional deductions for depreciation resulting in a federal taxable loss in 2014. Such taxable loss will be carried back to prior tax years to refund tax amounts previously paid. Primarily as a result of this federal income tax carryback, TDS has recorded \$113.7 million of Income taxes receivable at December 31, 2014. TDS paid income taxes of \$48.9 million and \$175.6 million in 2014 and 2013, respectively. In 2013, accounts receivable grew substantially due to issues resulting from the conversion to a new billing system at U.S. Cellular. In 2014, the higher accounts receivable balances resulting from the billing system conversion decreased to more normal levels; however, this decrease was partially offset by

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increased receivables related to equipment installment plan sales which are expected to increase in the near term.

Cash flows from operating activities were \$494.6 million in 2013 and \$1,105.2 million in 2012. This decrease was due primarily to changes in accounts receivable, income tax payments (net of refunds), and inventory. The changes in accounts receivable balances were due primarily to billing delays encountered during the conversion to a new U.S. Cellular billing system in the third quarter of 2013. Net income tax payments of \$175.6 million were recorded in 2013 compared to net income tax refunds of \$62.0 million in 2012. The net refunds in 2012 were primarily related to a federal net operating loss in 2011 largely attributable to 100% bonus depreciation applicable to qualified capital expenditures. The change in inventory was due primarily to higher costs per unit related to 4G LTE smartphones.

Cash Flows from Investing Activities

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

Cash used for additions to property, plant and equipment totaled \$799.5 million, \$883.8 million and \$995.5 million in 2014, 2013 and 2012, respectively, and is reported in the Consolidated Statement of Cash Flows.

Capital expenditures (i.e., additions to property, plant and equipment and system development expenditures), which include the effects of accruals and capitalized interest, in 2014, 2013 and 2012 were as follows:

Capital expenditures (Dollars in thousands)	2014	2013	2012
U.S. Cellular	\$ 557,615	\$ 737,501	\$ 836,748
TDS Telecom Wireline	135,805	140,009	158,580
TDS Telecom Cable	35,640	8,375	
TDS Telecom HMS	36,618	16,474	15,344
Corporate and Other	4,899	7,301	(6,051)
Total	\$ 770,577	\$ 909,660	\$ 1,004,621

See "Capital Expenditures" below for additional information on Capital expenditures.

Cash payments for acquisitions in 2014, 2013 and 2012 were as follows:

Cash Payments for Acquisitions (Dollars in thousands)	2014	2013	2012
U.S. Cellular licenses	\$ 22,916	\$ 16,540	\$ 122,690
TDS Telecom HMS businesses	(442)	33,961	40,692
TDS Telecom Cable businesses	272,779	264,069	
Total	\$ 295,253	\$ 314,570	\$ 163,382

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Cash amounts paid for the 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.

Cash Received from Divestitures	2014	2013	2012
(Dollars in thousands)			
U.S. Cellular licenses	\$ 91,789	\$ 311,989	\$
U.S. Cellular businesses	88,132	499,131	49,932
TDS Telecom Wireline businesses	7,724		250
Total	\$ 187,645	\$ 811,120	\$ 50,182

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

In 2012, TDS invested \$120.0 million in U.S. Treasury Notes. TDS realized cash proceeds of \$50.0 million, \$115.0 million and \$243.4 million in 2014, 2013 and 2012, respectively, related to the maturities of its investments in U.S. Treasury Notes, corporate notes and certificates of deposit.

In 2014, cash used for investing activities included a \$60.0 million deposit made by Advantage Spectrum, L.P., a variable interest entity consolidated by U.S. Cellular, to the FCC for its participation in Auction 97. See Note 14 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

Cash Flows from Financing Activities

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

In December 2014, U.S. Cellular issued \$275.0 million of 7.25% Senior Notes due 2063, and paid related debt issuance costs of \$9.2 million.

In November 2012, TDS issued \$195.0 million of 5.875% Senior Notes due 2061, and paid related debt issuance costs of \$7.1 million.

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. Of the \$482.3 million paid, TDS received \$407.1 million while noncontrolling public shareholders received \$75.2 million. The cash paid to noncontrolling public shareholders is presented as U.S. Cellular dividends paid to noncontrolling public shareholders on the Consolidated Statement of Cash Flows.

Adjusted Free Cash Flow

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

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of cash generated by business operations (including cash proceeds from the Sprint Cost Reimbursement), after Cash used for additions to property, plant and equipment.

(Dollars in thousands)	2014	2013	2012
Cash flows from operating activities	\$ 394,812	\$ 494,610	\$ 1,105,172
Add: Sprint Cost Reimbursement(1)	71,097	10,560	
Less: Cash used for additions to property, plant and equipment	799,496	883,797	995,517
Adjusted free cash flow	\$ (333,587)	\$ (378,627)	\$ 109,655

(1)

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

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

LIQUIDITY

TDS believes that existing cash and investment balances, funds available under its revolving credit facilities and term loan facility and expected cash flows from operating and investing activities provide substantial liquidity and financial flexibility for TDS to meet its normal day-to-day operating needs. However, these resources may not be adequate to fund all future expenditures that the companies could potentially elect to make such as acquisitions of spectrum licenses in FCC auctions and other acquisition, construction and development programs. It may be necessary from time to time to increase the size of the existing revolving credit facilities, to put in place new facilities, or to obtain other forms of financing in order to fund these potential expenditures. To the extent that sufficient funds are not available to TDS or its subsidiaries on terms or at prices acceptable to TDS, it could require TDS to reduce its acquisition, construction and development programs.

U.S. Cellular's profitability historically has been lower in the fourth quarter as a result of significant marketing and promotional activity during the holiday season. Additionally, TDS expects lower cash flows from operating activities in the near term as the popularity of U.S. Cellular's equipment installment plans increases. TDS cannot provide assurances that circumstances that could have a material adverse effect on its liquidity or capital resources will not occur. Economic conditions, changes in financial markets, TDS financial performance and/or prospects or other factors could restrict TDS' liquidity and availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its capital expenditure, acquisition or share repurchase programs. Such reductions could have a material adverse effect on TDS' business, financial condition or results of operations.

Cash and Cash Equivalents

At December 31, 2014, TDS' cash and cash equivalents totaled \$471.9 million. Cash and cash equivalents include cash and short-term, highly liquid investments with original maturities of three months or less. The primary objective of TDS' Cash and cash equivalents investment activities is to preserve principal. At December 31, 2014, the majority of TDS' Cash and cash equivalents was held in bank deposit accounts and in money market funds that invest exclusively in U.S. Treasury Notes or in repurchase agreements fully collateralized by such obligations. TDS monitors the financial viability of the money market funds and direct investments in which it invests and believes that the credit risk associated with these investments is low.

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Financing

Revolving Credit Facilities

TDS (exclusive of facilities held by U.S. Cellular) and U.S. Cellular have revolving credit facilities available for general corporate purposes including spectrum purchases and capital expenditures, with a maximum borrowing capacity of \$400.0 million and \$300.0 million, respectively. As of December 31, 2014, the unused capacity under these agreements was \$399.4 million and \$282.5 million, respectively. 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 that they were in compliance as of December 31, 2014 with all of the financial covenants and requirements set forth in their revolving credit facilities.

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

Term Loan Facility

On January 21, 2015, U.S. Cellular entered into a term loan credit facility relating to \$225.0 million in debt. The term loan must be drawn in one or more advances by the six month anniversary of the date of the agreement; amounts not drawn by that time will cease to be available. Amounts repaid or prepaid under the term loan facility may not be reborrowed. The maturity date of the term loan would accelerate in the event of a change in control.

The term loan is available for general corporate purposes including spectrum purchases and capital expenditures. The term loan is unsecured except for a lien on all equity which U.S. Cellular may have in the loan administrative agent, CoBank ACB, subject to certain limitations. 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.

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

Long-Term Financing

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

In December 2014, U.S. Cellular sold and issued \$275 million of 7.25% Senior Notes due in 2063 for general corporate purposes including spectrum purchases and capital expenditures, reducing the available amount on U.S. Cellular's shelf registration statement from \$500 million to \$225 million. U.S. Cellular has the authority to replenish this shelf registration statement back to \$500 million.

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TDS believes that it and its subsidiaries were in compliance as of December 31, 2014 with all financial covenants and other requirements set forth in its long-term debt indentures. TDS and U.S. Cellular have not failed to make nor do they expect to fail to make any scheduled payment of principal or interest under such indentures.

The long-term debt principal payments due for the next five years represent less than 1% of the total long-term debt obligation at December 31, 2014. Refer to Market Risk Long-Term Debt for additional information regarding required principal payments and the weighted average interest rates related to TDS' Long-term debt.

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

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

Credit Rating

In certain circumstances, TDS' and U.S. Cellular's interest cost on their various 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. The 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 facilities or obtain access to other credit facilities in the future.

In 2014, nationally recognized credit rating agencies downgraded TDS and U.S. Cellular's corporate and senior debt credit ratings. After these downgrades, TDS and U.S. Cellular are rated at sub-investment grade. TDS and U.S. Cellular's credit ratings as of December 31, 2014, and the dates such ratings were issued/re-affirmed were as follows:

Moody's (TDS) (issued November 26, 2014)	Ba2	negative outlook
Moody's (U.S. Cellular) (issued November 26, 2014)	Ba1	negative outlook
Standard & Poor's (issued November 24, 2014)	BB	stable outlook
Fitch Ratings (re-affirmed November 24, 2014)	BB+	stable outlook

Capital Expenditures

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

Expand and enhance network coverage, including providing additional capacity to accommodate increased network usage, principally data usage, by current customers;

Continue to deploy 4G LTE technology in certain markets;

Expand and enhance the retail store network; and

Develop and enhance office systems.

TDS Telecom's capital expenditures for 2015 are expected to be approximately \$220 million. These expenditures are expected to be for the following general purposes:

Maintain and enhance existing infrastructure at Wireline, HMS, and Cable;

Fiber expansion in Wireline and Cable markets to support IPTV and super high speed data;

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Success-based spending to sustain managedIP, IPTV, HMS and Cable growth; and

Expansion of HMS data center facilities.

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

Acquisitions, Divestitures and Exchanges

TDS assesses its business interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on investment. As part of this strategy, TDS reviews attractive opportunities to acquire additional wireless operating markets and wireless spectrum; and telecommunications, cable, HMS or other possible businesses. In addition, TDS may seek to divest outright or include in exchanges for other interests those interests that are not strategic to its long-term success.

TDS may be engaged from time to time in negotiations relating to the acquisition, divestiture or exchange of companies, properties, wireless spectrum and other possible businesses. In general, TDS may not disclose such transactions until there is a definitive agreement. See Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to significant transactions, including expected pre-tax cash proceeds from such transactions in 2015.

Variable Interest Entities

TDS consolidates certain entities because they are "variable interest entities" under accounting principles generally accepted in the United States of America ("GAAP"). See Note 14 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information related to these variable interest entities. TDS may elect to make additional capital contributions and/or advances to these variable interest entities in future periods in order to fund their operations.

FCC Spectrum Auction 97

In January 2015, the FCC released the results of Auction 97. U.S. Cellular participated in Auction 97 indirectly through its limited partnership interest in Advantage Spectrum. Advantage Spectrum was the provisional winning bidder of 124 licenses for an aggregate bid of \$338.3 million, net of its anticipated designated entity discount of 25%. On or prior to March 2, 2015, Advantage Spectrum is required to pay the FCC for its bid amount, less the initial deposit of \$60.0 million, plus certain other charges totaling \$2.3 million. Advantage Spectrum expects to fund this capital requirement with loans and capital contributions from its partners. U.S. Cellular plans to use a portion of the proceeds received from the issuance of its 7.25% Senior Notes and term loan facility to provide loans to Advantage Spectrum and its general partner and capital contributions to Advantage Spectrum.

Common Share Repurchase Programs

In the past year, TDS and U.S. Cellular have repurchased and expect to continue to repurchase their Common Shares, in each case subject to any available repurchase program. For additional information related to the current TDS and U.S. Cellular repurchase authorizations and repurchases made during 2014, 2013 and 2012, see Note 16 Common Shareholders' Equity in the Notes to Consolidated Financial Statements and Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Table of Contents**Telephone and Data Systems, Inc.****Management's Discussion and Analysis of Financial Condition and Results of Operations****Contractual and Other Obligations**

At December 31, 2014, the resources required for contractual obligations were as follows:

(Dollars in millions)	Total	Payments Due by Period			
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Long-term debt obligations(1)	\$ 2,002.7	\$ 0.7	\$ 3.7	\$	\$ 1,998.3
Interest payments on long-term debt obligations	5,197.1	136.0	271.9	271.6	4,517.6
Operating leases(2)	1,401.3	155.5	258.7	188.6	798.5
Capital leases	5.3	0.3	0.6	0.7	3.7
Purchase obligations(3)(4)	1,867.2	919.8	720.2	147.9	79.3
	\$ 10,473.6	\$ 1,212.3	\$ 1,255.1	\$ 608.8	\$ 7,397.4

- (1) Includes current and long-term portions of debt obligations. The total long-term debt obligation differs from Long-term debt in the Consolidated Balance Sheet due to capital leases and the \$11.3 million unamortized discount related to U.S. Cellular's 6.7% Senior Notes. See Note 11 Debt in the Notes to Consolidated Financial Statements for additional information.
- (2) Includes future lease costs related to telecommunications plant facilities, office space, retail sites, cell sites, data centers and equipment. See Note 13 Commitments and Contingencies in the Notes to Consolidated Financial Statements for additional information.
- (3) Includes obligations payable under non-cancellable contracts, commitments for network facilities and transport services, agreements for software licensing, long-term marketing programs, and agreements with Apple to purchase certain minimum quantities of Apple iPhone products and fund marketing programs related to the Apple iPhone and iPad products. As described more fully in Note 6 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements, U.S. Cellular expects to incur network-related exit costs in the Divestiture Markets as a result of the transaction, including: (i) costs to decommission cell sites and mobile telephone switching office ("MTSO") sites, (ii) costs to terminate real property leases and (iii) costs to terminate certain network access arrangements in the subject markets. The impacts of these exit activities on TDS' purchase obligations are reflected in the table above only to the extent that agreements were consummated at December 31, 2014.
- (4) Does not include reimbursable amounts TDS Telecom will provide to complete projects under the American Recovery and Reinvestment Act of 2009. TDS Telecom will receive \$105.1 million in federal grants and will provide \$30.9 million of its own funds to complete 44 projects. As of December 31, 2014, TDS Telecom has expended \$125.2 million of the \$126.3 million on these projects. Under the terms of the grants, the projects must be completed by June of 2015.

The table above excludes liabilities related to "unrecognized tax benefits" as defined by GAAP because TDS is unable to predict the period of settlement of such liabilities. Such unrecognized tax benefits were \$37.8 million at December 31, 2014. See Note 4 Income Taxes in the Notes to Consolidated Financial Statements for additional information on unrecognized tax benefits.

Agreements

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On November 25, 2014, U.S. Cellular executed a Master Statement of Work and certain other documents with Amdocs Software Systems Limited ("Amdocs"), effective October 1, 2014, that inter-relate with but rearrange the structure under previous Amdocs Agreements. The agreement provides that U.S. Cellular will now outsource to Amdocs certain support functions for its Billing and Operational Support System ("B/OSS"). Such functions include application support, billing operations and some infrastructure services. The agreement has a term through September 30, 2019, subject to five

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one-year renewal periods at U.S. Cellular's option. The total estimated amount to be paid to Amdocs with respect to the agreement during the initial five-year term is approximately \$110 million (exclusive of travel and expenses and subject to certain potential adjustments).

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

Off-Balance Sheet Arrangements

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

Dividends

TDS paid quarterly dividends per outstanding share of \$0.1340 in 2014, \$0.1275 in 2013 and \$0.1225 in 2012. TDS increased the dividend per share to \$0.1410 in the first quarter of 2015. See Note 16 Common Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information. TDS has no current plans to change its policy of paying dividends.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

TDS prepares its consolidated financial statements in accordance with GAAP. TDS' significant accounting policies are discussed in detail in Note 1 Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements.

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

Intangible Asset Impairment

Goodwill, licenses, and Franchise rights represent a significant component of TDS' consolidated assets. These assets are considered to be indefinite lived assets and are therefore not amortized but tested annually for impairment. TDS performs annual impairment testing of Goodwill, Licenses and Franchise rights, as required by GAAP, as of November 1 of each year. Significant negative events, such as changes in any of the assumptions described below as well as decreases in forecasted cash flows, could result in an impairment in future periods.

See Note 7 Intangible Assets in the Notes to Consolidated Financial Statements for information related to Goodwill, Licenses and Franchise rights activity in 2014 and 2013.

Goodwill U.S. Cellular

Based on the results of the U.S. Cellular annual Goodwill impairment assessment performed as of November 1, 2014, the fair value of each of the U.S. Cellular reporting units exceeded their respective carrying values. Therefore, no impairment of Goodwill existed.

For purposes of impairment testing of U.S. Cellular Goodwill in 2014 and 2013, U.S. Cellular identified four reporting units based on geographic service areas (all of which are included in TDS' wireless reportable segment).

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

Key Assumptions	November 1, 2014
Revenue growth rate(1)	1.6%
Terminal revenue growth rate(1)	2.0%
Discount rate(2)	10.5%
Capital expenditures as a percentage of revenue(3)	16.5%

- (1) There are risks that could negatively impact the projected revenue growth rates, including, but not limited to: the success of new and existing products/services, competition, operational difficulties and churn.
- (2) The discount rate of each reporting unit was computed by calculating the weighted average cost of capital of market participants with businesses reasonably comparable to U.S. Cellular. The discount rate is dependent upon the cost of capital of other industry market participants and the company specific risk. To the extent that the weighted average cost of capital of industry participants increases or U.S. Cellular's risk in relation to its peers increases, this would decrease the estimated fair value of the reporting units. The weighted average cost of capital may increase if borrowing costs rise, market participants weight more of their capital structure towards equity (vs. debt), or other elements affecting the estimated cost of equity increase.
- (3) Capital expenditures generally include costs to develop the network. To the extent costs associated with these capital expenditures increase at a rate higher than expected and disproportionate to forecasted future revenues, this could negatively impact future cash flows.

Provided all other assumptions remained the same, the discount rate would have to increase to a range of 11.2% to 12.1% to yield estimated fair values of reporting units that equal their respective carrying values at November 1, 2014. Further, assuming all other assumptions remained the same, the terminal growth rate assumptions would need to decrease to amounts ranging from negative 1.9% to positive 0.6% to yield estimates of fair value equal to the carrying values of the respective reporting unit at November 1, 2014.

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The carrying value of each U.S. Cellular reporting unit at TDS as of November 1, 2014 and the percentage by which its estimated fair value exceeded carrying value was as follows:

Reporting Unit (Dollars in millions)	Carrying Value at TDS(1)	Excess of estimated Fair Value over Carrying Value
Central Region	\$ 1,598	23.7%
Mid-Atlantic Region	516	12.5%
New England Region	217	20.9%
Northwest Region	170	28.1%
Total	\$ 2,501	

- (1) Under previous business combination guidance in effect prior to January 1, 2009, TDS had recorded Goodwill as a result of accounting for U.S. Cellular's purchases of U.S. Cellular Common Shares as step acquisitions using purchase accounting. As a result, the carrying values of the reporting units differ between U.S. Cellular and TDS. The carrying value of the reporting units at U.S. Cellular was \$2,646 million at November 1, 2014.

Goodwill TDS Telecom

TDS Telecom has recorded Goodwill as a result of the acquisition of wireline, HMS and cable companies. For purposes of the 2014 Goodwill impairment testing, TDS Telecom has three reporting units: Wireline, HMS and Cable. For purposes of the 2013 Goodwill impairment testing, TDS Telecom had three reporting units: ILEC, HMS and Cable. During 2014, the ILEC and CLEC operations were combined into one reporting unit referred to as Wireline. There is no Goodwill at the CLEC operations.

Qualitative Assessment HMS

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. See discussion below under "Quantitative Assessment Wireline, Cable, and Interim HMS."

Considering that the interim test was recently performed as of August 1, 2014, a qualitative assessment of the HMS reporting unit was determined to be sufficient for the annual impairment test that was completed as of November 1, 2014. The qualitative assessment, which analyzed company, industry and economic trends, concluded that it was more likely than not that the fair value of the HMS reporting unit was at least equal to its carrying value, and accordingly, no Goodwill impairment resulted.

Quantitative Assessment Wireline, Cable, and Interim HMS

The discounted cash flow approach and guideline public company method were used to value the Wireline and Cable reporting units at November 1, 2014. Additionally, these approaches were used to value the HMS reporting unit as of the interim impairment testing date of August 1, 2014. As of November 1, 2014, the fair values of the Wireline and Cable reporting units exceeded their carrying values; therefore, no impairment of Goodwill existed for either reporting unit. As of August 1, 2014, TDS Telecom determined that the carrying value of the HMS reporting unit exceeded its fair value. Therefore, a Step 2 Goodwill impairment test was performed and TDS recognized a loss on impairment of

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assets of \$84.0 million during the three months ended September 30, 2014 for its HMS reporting unit.

The discounted cash flow approach uses value drivers and risks specific to the industry and current economic factors. The most significant assumptions made in this process were the revenue growth rate (shown as a compound annual growth rate in the table below), the terminal revenue growth rate, the

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discount rate and capital expenditures as a percentage of revenue (shown as a simple average in the table below).

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

For purposes of the discounted cash flow approach, the following table represents key assumptions used in estimating the fair value of the Wireline and Cable reporting units as of the respective testing dates.

There are uncertainties associated with these key assumptions and potential events and/or circumstances that could have a negative effect on the key assumptions, which are described below.

Key Assumptions	November 1, 2014		August 1, 2014
	Wireline	Cable	HMS
Revenue growth rate(1)	(2.8)%	6.9%	6.1%
Terminal revenue growth rate(1)	0.0%	3.0%	2.5%
Discount rate(2)	7.0%	10.5%	11.5%
Capital expenditures as a percentage of revenue(3)	17.0%	15.8%	8.6%

- (1) There are risks that could negatively impact the projected revenue growth rates, including, but not limited to: the success of new and existing products/services, competition, and operational difficulties. TDS Telecom uses internally generated forecasts to develop such rates. TDS Telecom's internally generated forecasts consider such things as observed demand and market and competitive knowledge.
- (2) The discount rate is dependent upon the cost of capital of other industry market participants and company specific risk. To the extent that the weighted average cost of capital of industry participants increases, this would decrease the estimated fair value of the reporting units. The weighted average cost of capital may increase if borrowing costs rise, market participants weight more of their capital structure towards equity (vs. debt), Wireline, Cable or HMS' risk in relation to its peers increases or other elements affecting the estimated cost of equity increase. This rate varies by reporting unit as a result of such things as the maturity and capital intensity of the related market participants.
- (3) To the extent costs associated with these capital expenditures increase at a rate higher than expected and disproportionate to forecasted future revenues, this could negatively impact future cash flows.

The following represents the carrying values of the reporting units tested for impairment as of November 1, 2014, and the results of the Step 1 Goodwill impairment tests. The following does not show the carrying value of the HMS reporting unit or the percentage by which the estimated reporting unit fair value exceeded its carrying value as of November 1, 2014 because the carrying value had been adjusted to fair value during the three months ended September 30, 2014 and a qualitative assessment was performed as of the annual impairment testing date, November 1, 2014.

Reporting unit (Dollars in millions)	Carrying value	Percentage by which the estimated reporting unit FV exceeded its CV	
Wireline	\$ 1,455		4.9%
Cable	\$ 524		11.2%

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Provided all other assumptions remained the same, the Wireline and Cable discount rates would have to increase to 7.8% and 11.5%, respectively, to yield estimated fair values equal to their respective carrying values at November 1, 2014. Further, provided all other assumptions remained the same, the Wireline and Cable terminal revenue growth rate assumptions would need to decrease to negative 1.1% and positive 1.0%, respectively, to yield an estimate of fair value equal to the carrying value of the respective reporting units at November 1, 2014.

Wireless Licenses

As of November 1, 2014, the estimated fair value of the U.S. Cellular licenses in each unit of accounting exceeded their carrying value. Therefore, no impairment of licenses existed. U.S. Cellular tests licenses for impairment at the level of reporting referred to as a unit of accounting. For purposes of its impairment testing of licenses as of November 1, 2014 and November 1, 2013, U.S. Cellular separated its FCC licenses into eleven units of accounting based on geographic service areas. In both 2014 and 2013, seven of the units of accounting represented geographic groupings of licenses which, because they were not being utilized and, therefore, were not expected to generate cash flows from operating activities in the foreseeable future, were considered separate units of accounting for purposes of impairment testing.

Developed operating market licenses ("built licenses")

U.S. Cellular applies the build-out method to estimate the fair values of built licenses. The most significant assumptions applied for purposes of the licenses impairment assessment were as follows:

Key Assumptions	November 1, 2014
Build-out period(1)	5 years
Discount rate(2)	8.75%
Terminal revenue growth rate	2.0%
Terminal capital expenditures as a percentage of revenue	14.5%
Customer penetration rates	12.0-16.3%

- (1) The build-out period represents the estimated time to perform a hypothetical build of the network. Changes in the estimated build-out period can occur as a result of changes in resources and technology. Such changes could negatively or positively impact the results.
- (2) The discount rate used in the valuation of licenses is less than the discount rate used in the valuation of reporting units for purposes of goodwill impairment testing. The discount rate used for licenses includes a reduced company-specific risk premium as it is assumed a market participant starting a greenfield build would construct and operate its network in an optimal manner and would not be constrained by the current network and operations associated with a mature wireless company. The discount rate is estimated based on the overall risk-free interest rate adjusted for industry participant information, such as a typical capital structure (i.e., debt-equity ratio), the after-tax cost of debt and the cost of equity. The cost of equity takes into consideration the average risk specific to individual market participants. The weighted average cost of capital may increase if borrowing costs rise, market participants weight more of their capital structure towards equity (vs. debt), or other elements affecting the estimated cost of equity increase.

As of November 1, 2014, the fair values of the built licenses units of accounting exceeded their respective carrying values by amounts ranging from 7.9% to 42.9%. The discount rate would have to increase to a range of 8.9% to 9.3% to yield estimated fair values of licenses in the respective units of accounting that equal their respective carrying values at November 1, 2014.

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For purposes of performing impairment testing of unbuilt licenses, the fair value of the unbuilt licenses is assumed to have changed 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. There was no impairment loss recognized related to unbuilt licenses as a result of the November 1, 2014 licenses impairment test.

Carrying Value of Licenses

The carrying value of licenses at November 1, 2014 was as follows:

Unit of Accounting(1) (Dollars in millions)	Carrying Value
U.S. Cellular Built licenses	
Central Region	\$ 804
Mid-Atlantic Region	234
New England Region	107
Northwest Region	68
U.S. Cellular Unbuilt licenses	
New England	1
North Northwest	3
South Northwest	2
North Central	51
South Central	22
East Central	87
Mid-Atlantic	17
Total(2)	\$ 1,396
Other	6
Total(3)	\$ 1,402

(1) U.S. Cellular participated in spectrum auctions indirectly through its interests in Aquinas Wireless L.P. ("Aquinas Wireless") and King Street Wireless L.P. ("King Street Wireless"), collectively, the "limited partnerships." Interests in other limited partnerships that participated in spectrum auctions have since been acquired. Each limited partnership participated in and was awarded spectrum licenses in one of two separate spectrum auctions (FCC Auctions 78 and 73). All of the units of accounting above, except New England, include licenses awarded to the limited partnerships.

(2) Under previous business combination guidance in effect prior to January 1, 2009, TDS had recorded licenses as a result of accounting for U.S. Cellular's purchases of U.S. Cellular Common Shares as step acquisitions using purchase accounting. As a result, the carrying values of the units of accounting for the developed operating markets differ between U.S. Cellular and TDS. The total carrying value of all units of accounting at U.S. Cellular was \$1,391 million at November 1, 2014.

(3)

Between the November 1, 2014 impairment test date and the December 31, 2014 Consolidated Balance Sheet date, TDS obtained licenses through a license exchange in the amount of \$51 million and capitalized interest on certain licenses pursuant to current network build-outs in the amount of \$1 million.

Franchise rights

TDS Telecom has recorded Franchise rights as a result of acquisitions of cable businesses. TDS Telecom tests Franchise rights for impairment at a level of reporting referred to as a unit of accounting. For

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purposes of its impairment testing of Franchise rights, TDS Telecom has one unit of accounting: Cable. A qualitative assessment of the Cable unit of accounting was completed as of November 1, 2013.

TDS Telecom applied the build-out method to estimate the fair value of Franchise rights as of November 1, 2014. Based on the results of this assessment, the estimated fair value of the Franchise rights exceeded their carrying value.

The following table represents key assumptions used in estimating the fair value of the Franchise rights as of November 1, 2014 using the build-out method. There are uncertainties associated with these key assumptions and potential events and/or circumstances that could have a negative effect on the key assumptions, which are described below.

Key Assumptions	November 1, 2014
Build-out period(1)	2 years
Discount rate(2)	8.0%
Terminal revenue growth rate	3.0%
Terminal capital expenditures as a percentage of revenue	15.8%

- (1) The build-out period represents the estimated time to perform a hypothetical build of the network. Changes in the estimated build-out period can occur as a result of changes in resources and technology. Such changes could negatively or positively impact the results.
- (2) The discount rate used in the valuation of Franchise rights is less than the discount rate used in the valuation of reporting units for purposes of Goodwill impairment testing. The discount rate used for Franchise rights includes a reduced company-specific risk premium as it is assumed a market participant starting a greenfield build would construct and operate its network in an optimal manner and would not be constrained by the current network and operations associated with a mature cable company. The discount rate is estimated based on the overall risk-free interest rate adjusted for industry participant information, such as a typical capital structure (i.e., debt-equity ratio), the after-tax cost of debt and the cost of equity. The cost of equity takes into consideration the average risk specific to individual market participants. The weighted average cost of capital may increase if borrowing costs rise, market participants weight more of their capital structure towards equity (vs. debt), or other elements affecting the estimated cost of equity increase.

As of November 1, 2014, the fair value of the franchise rights exceeded its carrying value by 25.7%. Provided all other assumptions remained the same, the discount rate would have to increase to 8.4% to yield an estimated fair value of the Franchise rights that equals its carrying value at November 1, 2014. Further, provided all other assumptions remained the same, the terminal revenue growth rate assumption would need to decrease to 2.3% to yield an estimate of fair value equal to the carrying value of the Franchise rights at November 1, 2014.

Income Taxes

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

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

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income taxes, deferred income tax assets and liabilities and any valuation allowance that is established for deferred income tax assets.

TDS recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

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

Loyalty Reward Program

See the Revenue Recognition U.S. Cellular section of Note 1 Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for additional description of this program and the related accounting.

TDS follows the deferred revenue method of accounting for its loyalty reward program. Under this method, revenue allocated to loyalty reward points is deferred. The amount allocated to the loyalty points is based on the estimated retail price of the products and services for which points may be redeemed, as well as TDS' estimate of the percentage of loyalty points that will be redeemed for each product or service. A significant change in any of the aforementioned assumptions used would impact the amount of revenue deferred and recognized under the loyalty reward program.

Revenue is recognized at the time of customer redemption or when such points have been depleted via an account maintenance charge. As a result of the accumulation of historical experience, beginning in the fourth quarter of 2013, TDS began recognizing breakage under the proportional model. Prior to the fourth quarter of 2013, breakage was not recognized until incurred. Under the proportional model, TDS allocates a portion of the estimated future breakage to each redemption and records revenue proportionally.

TDS periodically reviews and if necessary, revises the redemption and depletion rates under this model as appropriate based on history and related future expectations. In 2014 and 2013, TDS recognized \$20.6 million and \$16.8 million, respectively, in revenues related to estimated and actual breakage.

Equipment Installment Plans

TDS offers customers the option to purchase certain devices under installment contracts over a period of up to 24 months and, under certain of these plans, offers the customer a trade-in right. Customers on an installment contract that elect to trade-in their device, will receive a credit in the amount of the outstanding balance of the installment contract, provided the subscriber trades-in an eligible used device in good working condition and purchases a new device from TDS. Equipment revenue under these contracts is recognized at the time the device is delivered to the end-user customer for the selling price of the device, net of any deferred imputed interest or trade-in right, if applicable.

Trade-In Right

TDS values the trade-in right as a guarantee liability. This liability is initially measured at fair value and is determined based on assumptions including the probability and timing of the customer upgrading to a new device and the estimated fair value of the used device eligible for trade-in. TDS reevaluates its estimate of the guarantee liability at each reporting date. A significant change in any of the aforementioned assumptions used to compute the guarantee liability would impact the amount of revenue recognized under these plans and the timing thereof. For the year ended December 31, 2014,

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TDS assumed the earliest contractual time of trade-in, or 12 months, for all customers on installment contracts with trade-in rights.

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

Interest

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

Allowance

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

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See Note 20 Certain Relationships and Related Transactions in the Notes to Consolidated Financial Statements.

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Telephone and Data Systems, Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

**PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995
SAFE HARBOR CAUTIONARY STATEMENT**

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

Intense competition in the markets in which TDS operates could adversely affect TDS' revenues or increase its costs to compete.

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

TDS offers customers the option to purchase certain devices under installment contracts, which creates certain risks and uncertainties which could have an adverse impact on TDS' financial condition or results of operations.

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

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

To the extent conducted by the Federal Communications Commission ("FCC"), TDS is likely to participate in FCC auctions of additional spectrum in the future as an applicant or as a noncontrolling partner in another auction applicant and, during certain periods, will be subject to the FCC's anti-collusion rules, which could have an adverse effect on TDS.

Changes in the regulatory environment or a failure by TDS to timely or fully comply with any applicable regulatory requirements could adversely affect TDS' business, financial condition or results of operations.

An inability to attract people of outstanding potential, to develop their potential through education and assignments, and to retain them by keeping them engaged, challenged and properly rewarded could have an adverse effect on TDS' business, financial condition or results of operations.

TDS' assets are concentrated primarily in the U.S. telecommunications industry. As a result, its results of operations may fluctuate based on factors related primarily to conditions in this industry.

TDS' lower scale relative to larger competitors could adversely affect its business, financial condition or results of operations.

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Changes in various business factors could have an adverse effect on TDS' business, financial condition or results of operations.

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

Complexities associated with deploying new technologies present substantial risk.

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Telephone and Data Systems, Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

TDS is subject to numerous surcharges and fees from federal, state and local governments, and the applicability and the amount of these fees are subject to great uncertainty.

Performance under device purchase agreements could have a material adverse impact on TDS' business, financial condition or results of operations.

Changes in TDS' enterprise value, changes in the market supply or demand for wireless licenses, wireline or cable markets or IT service providers, adverse developments in the businesses or the industries in which TDS is involved and/or other factors could require TDS to recognize impairments in the carrying value of its licenses, goodwill, franchise rights and/or physical assets.

Costs, integration problems or other factors associated with acquisitions, divestitures or exchanges of properties or licenses and/or expansion of TDS' businesses could have an adverse effect on TDS' business, financial condition or results of operations.

TDS' investments in unproven technologies may not produce the benefits that TDS expects.

A failure by TDS to complete significant network construction and systems implementation activities as part of its plans to improve the quality, coverage, capabilities and capacity of its networks and support systems could have an adverse effect on its operations.

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

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

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

Cyber-attacks or other breaches of network or information technology security could have an adverse effect on TDS' business, financial condition or results of operations.

The market price of TDS' Common Shares is subject to fluctuations due to a variety of factors.

Changes in facts or circumstances, including new or additional information, could require TDS to record charges in excess of amounts accrued in the financial statements, which could have an adverse effect on TDS' business, financial condition or results of operations.

Disruption in credit or other financial markets, a deterioration of U.S. or global economic conditions or other events could, among other things, impede TDS' access to or increase the cost of financing its operating and investment activities and/or result in reduced revenues and lower operating income and cash flows, which would have an adverse effect on TDS' business, financial condition or

results of operations.

Uncertainty of TDS' ability to access capital, deterioration in the capital markets, other changes in market conditions, changes in TDS' credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development or acquisition programs.

Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on TDS' business, financial condition or results of operations.

The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from wireless devices and/or cell sites cause harmful health

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Telephone and Data Systems, Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

consequences, including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on TDS' wireless business, financial condition or results of operations.

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

Certain matters, such as control by the TDS Voting Trust and provisions in the TDS Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of TDS.

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

See "Risk Factors" in TDS' Annual Report on Form 10-K for the year ended December 31, 2014 for a further discussion of these risks. TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Readers should evaluate any statements in light of these important factors.

Table of Contents**Telephone and Data Systems, Inc.****Management's Discussion and Analysis of Financial Condition and Results of Operations****MARKET RISK****Long-Term Debt**

As of December 31, 2014, the majority of TDS' long-term debt was in the form of fixed-rate notes with maturities ranging up to 49 years. Fluctuations in market interest rates can lead to significant fluctuations in the fair value of these fixed-rate notes.

The following table presents the scheduled principal payments on long-term debt and capital lease obligations, and the related weighted average interest rates by maturity dates at December 31, 2014:

(Dollars in millions)	Principal Payments Due by Period	
	Long-Term Debt Obligations(1)	Weighted-Avg. Interest Rates on Long-Term Debt Obligations(2)
2015	\$ 0.8	2.5%
2016	3.8	4.4%
2017	0.1	8.7%
2018	0.1	8.8%
2019	0.1	9.1%
After 5 years	2,000.8	6.8%
Total	\$ 2,005.7	6.8%

(1) The total long-term debt obligation differs from Long-term debt in the Consolidated Balance Sheet due to the \$11.3 million unamortized discount related to U.S. Cellular's 6.7% Senior Notes. See Note 11 Debt in the Notes to Consolidated Financial Statements for additional information.

(2) Represents the weighted average interest rates at December 31, 2014 for debt maturing in the respective periods.

Fair Value of Long-Term Debt

At December 31, 2014 and 2013, the estimated fair value of long-term debt obligations, excluding capital lease obligations and the current portion of such long-term debt, was \$1,932.4 million and \$1,560.6 million, respectively. The fair value of long-term debt, excluding capital lease obligations and the current portion of such 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 at December 31, 2014 and 2013, and for U.S. Cellular's 7.25% Senior Notes at December 31, 2014, and a discounted cash flow analysis for U.S. Cellular's 6.7% Senior Notes and the remaining debt at December 31, 2014 and 2013.

Other Market Risk Sensitive Instruments

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

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Telephone and Data Systems, Inc.
Consolidated Statement of Operations

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

Dividends per share to TDS shareholders	\$	0.54	\$	0.51	\$	0.49
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The accompanying notes are an integral part of these consolidated financial statements.

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

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

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

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

Year Ended December 31, (Dollars in thousands)	2014	2013	2012
Cash flows from operating activities			
Net income (loss)	\$ (147,292)	\$ 166,821	\$ 122,653
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities			
Depreciation, amortization and accretion	836,532	1,018,077	813,626
Bad debts expense	107,861	105,629	74,695
Stock-based compensation expense	35,793	30,338	41,871
Deferred income taxes, net	71,713	(67,150)	58,785
Equity in earnings of unconsolidated entities	(131,965)	(132,714)	(92,867)
Distributions from unconsolidated entities	112,349	127,929	84,884
Loss on impairment of assets	87,802		515
(Gain) loss on asset disposals, net	26,531	30,841	19,741
(Gain) loss on sale of business and other exit costs, net	(15,846)	(300,656)	21,061
(Gain) loss on license sales and exchanges	(112,993)	(255,479)	
(Gain) loss on investments		(14,547)	3,718
Noncash interest expense	1,642	2,463	(572)
Other operating activities	(641)	612	1,393
Changes in assets and liabilities from operations			
Accounts receivable	17,629	(293,729)	(81,107)
Equipment installment plans receivable	(188,829)	(591)	
Inventory	(29,149)	(83,536)	(29,917)
Accounts payable	(117,264)	86,028	(12,332)
Customer deposits and deferred revenues	33,952	66,460	32,981
Accrued taxes	(122,921)	17,388	77,458
Accrued interest	1,277	380	(891)
Other assets and liabilities	(71,369)	(9,954)	(30,523)
	394,812	494,610	1,105,172
Cash flows from investing activities			
Cash used for additions to property, plant and equipment	(799,496)	(883,797)	(995,517)
Cash paid for acquisitions and licenses	(295,253)	(314,570)	(163,382)
Cash received from divestitures	187,645	811,120	50,182
Cash paid for investments			(120,000)
Cash received for investments	50,000	115,000	243,444
Federal Communications Commission deposit	(60,000)		
Other investing activities	7,360	11,594	(12,796)
	(909,744)	(260,653)	(998,069)
Cash flows from financing activities			
Issuance of long-term debt	275,000	37	195,358
Repayment of borrowing under revolving credit facility	(150,000)		

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Borrowing under revolving credit facility	150,000		
TDS Common Shares reissued for benefit plans, net of tax payments	(2,019)	9,654	(1,119)
U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	830	5,784	(2,205)
Repurchase of TDS Common Shares	(39,096)	(9,692)	(20,026)
Repurchase of U.S. Cellular Common Shares	(18,943)	(18,544)	(20,045)
Dividends paid to TDS shareholders	(58,040)	(55,293)	(53,165)
U.S. Cellular dividends paid to noncontrolling public shareholders		(75,235)	
Payment of debt issuance costs	(10,215)	(23)	(8,242)
Distributions to noncontrolling interests	(627)	(3,766)	(20,856)
Payments to acquire additional interest in subsidiaries		(4,505)	(3,167)
Other financing activities	9,929	7,159	3,570
	156,819	(144,424)	70,103
Net increase (decrease) in cash and cash equivalents	(358,113)	89,533	177,206
Cash and cash equivalents			
Beginning of period	830,014	740,481	563,275
End of period	\$ 471,901	\$ 830,014	\$ 740,481

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

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Telephone and Data Systems, Inc.
Consolidated Balance Sheet Assets

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

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

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

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

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

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

(Dollars in thousands)	Series A		TDS Shareholders			Total TDS Shareholder Equity	Preferred Shares	Non Controlling Interests	Total Equity
	Common and Common Shares	Capital in Excess of Par Value	Treasury Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings				
December 31, 2013	\$ 1,327	\$ 2,308,807	\$ (721,354)	\$ (569)	\$ 2,529,626	\$ 4,117,837	\$ 824	\$ 551,436	\$ 4,670,097
Add (Deduct)									
Net income (loss) attributable to TDS shareholders					(136,355)	(136,355)			(136,355)
Net income (loss) attributable to noncontrolling interests classified as equity								(11,614)	(11,614)
Net unrealized gain (loss) on equity investments				341		341			341
Change in foreign currency translation adjustment				48		48			48
Changes related to retirement plan				6,632		6,632			6,632
TDS Common and Series A Common Share dividends					(57,991)	(57,991)			(57,991)
TDS Preferred dividend requirement					(49)	(49)			(49)
Repurchase of Common Shares			(39,096)			(39,096)			(39,096)
Dividend reinvestment plan		2,702	7,093			9,795			9,795

Incentive and compensation plans	(1,580)	5,158	(5,044)	(1,466)	(1,466)				
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	12,072			12,072	(11,349) 723				
Stock-based compensation awards	14,182			14,182	14,182				
Tax windfall (shortfall) from stock awards	328			328	328				
Distributions to noncontrolling interests					(564) (564)				
December 31, 2014	\$ 1,327	\$ 2,336,511	\$ (748,199)	\$ 6,452	\$ 2,330,187	\$ 3,926,278	\$ 824	\$ 527,909	\$ 4,455,011

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

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

	Series A		TDS Shareholders			Total TDS Shareholder Equity	Preferred Shares	Non controlling Interests	Total Equity
	Common and Common Shares	Capital in Excess of Par Value	Treasury Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings				
(Dollars in thousands)									
December 31, 2012	\$ 1,327	\$ 2,304,122	\$ (750,099)	\$ (8,132)	\$ 2,464,318	\$ 4,011,536	\$ 825	\$ 643,966	\$ 4,656,327
Add (Deduct)									
Net income (loss) attributable to TDS shareholders					141,927	141,927			141,927
Net income (loss) attributable to noncontrolling interests classified as equity							24,661	24,661	24,661
Net unrealized gain (loss) on equity investments				51		51			51
Change in foreign currency translation adjustment				(34)		(34)			(34)
Changes related to retirement plan				7,546		7,546			7,546
TDS Common and Series A Common Share dividends					(55,244)	(55,244)			(55,244)
TDS Preferred dividend requirement					(49)	(49)			(49)
U.S. Cellular dividends paid to noncontrolling							(75,235)	(75,235)	(75,235)

public shareholders									
Repurchase of Preferred Shares			(5)	(5)	(1)				(6)
Repurchase of Common Shares		(9,692)		(9,692)					(9,692)
Dividend reinvestment plan	1,619	13,647	(5,966)	9,300					9,300
Incentive and compensation plans	655	24,790	(15,355)	10,090					10,090
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	(290)			(290)		20			(270)
Stock-based compensation awards	14,430			14,430					14,430
Tax windfall (shortfall) from stock awards	(1,311)			(1,311)					(1,311)
Distributions to noncontrolling interests						(3,576)			(3,576)
Adjust investment in subsidiaries for noncontrolling interest purchases	(10,418)			(10,418)		5,370			(5,048)
Deconsolidation of partnerships						(43,770)			(43,770)
December 31, 2013	\$ 1,327	\$ 2,308,807	\$ (721,354)	\$ (569)	\$ 2,529,626	\$ 4,117,837	\$ 824	\$ 551,436	\$ 4,670,097

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

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

	Series A		TDS Shareholders			Total TDS Shareholder Equity	Preferred Shares	Non controlling Interests	Total Equity
	Common and Common Shares	Capital in Excess of Par Value	Treasury Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings				
(Dollars in thousands)									
December 31, 2011	\$ 1,326	\$ 2,268,711	\$ (750,921)	\$ (8,854)	\$ 2,451,899	\$ 3,962,161	\$ 830	\$ 639,688	\$ 4,602,679
Add (Deduct)									
Net income (loss) attributable to TDS shareholders					81,861	81,861			81,861
Net income (loss) attributable to noncontrolling interests classified as equity							40,739		40,739
Net unrealized gain (loss) on equity investments				49		49			49
Change in foreign currency translation adjustment				4		4			4
Changes related to retirement plan				669		669			669
TDS Common and Series A Common Share dividends					(53,115)	(53,115)			(53,115)
TDS Preferred dividend requirement					(50)	(50)			(50)
Repurchase of Preferred Shares					(17)	(17)	(5)		(22)

Repurchase of Common Shares			(20,026)		(20,026)		(20,026)
Dividend reinvestment plan	1	1,148	14,123	(8,349)	6,923		6,923
Incentive and compensation plans		444	6,725	(7,911)	(742)		(742)
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans		12,572			12,572	(14,924)	(2,352)
Stock-based compensation awards		20,030			20,030		20,030
Tax windfall (shortfall) from stock awards		(3,179)			(3,179)		(3,179)
Distributions to noncontrolling interests						(20,856)	(20,856)
Adjust investment in subsidiaries for noncontrolling interest purchases		4,396			4,396	(738)	3,658
Other						57	57

December 31, 2012 \$ 1,327 \$ 2,304,122 \$ (750,099) \$ (8,132) \$ 2,464,318 \$ 4,011,536 \$ 825 \$ 643,966 \$ 4,656,327

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

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

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

Principles of Consolidation

The accounting policies of TDS conform to accounting principles generally accepted in the United States of America ("GAAP") as set forth in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Unless otherwise specified, references to accounting provisions and GAAP in these notes refer to the requirements of the FASB ASC. The consolidated financial statements include the accounts of TDS, its majority-owned subsidiaries, general partnerships in which it has a majority partnership interest and variable interest entities ("VIEs") in which TDS is the primary beneficiary. Both VIE and primary beneficiary represent terms defined by GAAP.

Intercompany accounts and transactions have been eliminated.

Reclassifications

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

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

Use of Estimates

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS
(Continued)****Cash and Cash Equivalents**

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

Accounts Receivable and Allowance for Doubtful Accounts

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

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

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

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

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

(1)

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

Inventory

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

Goodwill

TDS has Goodwill as a result of its acquisition of wireless, wireline, HMS, and cable companies and, under previous business combination guidance in effect prior to 2009, step acquisitions related to U.S. Cellular's repurchase of its common shares. Such Goodwill represents the

excess of the total purchase price over the fair value of net assets acquired in these transactions. TDS performs its annual impairment assessment of Goodwill as of November 1 of each year.

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS
(Continued)**

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

U.S. Cellular

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

TDS Telecom

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

Licenses

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

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

Radio spectrum is not a depleting asset.

The ability to use radio spectrum is not limited to any one technology.

TDS and its consolidated subsidiaries are licensed to use radio spectrum through the FCC licensing process, which enables licensees to utilize specified portions of the spectrum for the provision of wireless service.

TDS and its consolidated subsidiaries are required to renew their FCC licenses every ten years or, in some cases, every fifteen years. To date, all of TDS' license renewal applications have been granted by the FCC. Generally, license renewal applications filed by licensees otherwise in compliance with FCC regulations are routinely granted. If, however, a license renewal application is challenged either by a competing applicant for the license or by a petition to deny the renewal application, the license will be renewed if the licensee can demonstrate its entitlement to a "renewal expectancy." Licensees are entitled to such an expectancy if they can demonstrate to the FCC that they have provided "substantial service" during their license term and have "substantially complied" with FCC rules and policies. TDS believes that it is probable that its future license renewal applications will be granted.

U.S. Cellular performs its annual impairment assessment of its licenses as of November 1 of each year. For purposes of its 2014 and 2013 impairment testing of Licenses, U.S. Cellular separated its FCC licenses into eleven units of accounting based on geographic service areas. In both 2014 and 2013, seven of the units of accounting represented geographic groupings of licenses which, because they were not being utilized and, therefore, were not expected to generate cash flows from operating activities in the foreseeable future, were considered separate units of

accounting for purposes of impairment testing. U.S. Cellular estimates the fair value of built licenses for purposes of impairment testing using the

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS
(Continued)**

build-out method. The build-out method estimates the fair value of Licenses by discounting to present value the future cash flows calculated based on a hypothetical cost to build-out U.S. Cellular's network.

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

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

Franchise rights

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

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

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

Investments in Unconsolidated Entities

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

Property, Plant and Equipment

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

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

TDS capitalizes certain costs of developing new information systems.

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS
(Continued)**

Depreciation and amortization

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

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

Impairment of Long-lived Assets

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

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

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

Agent Liabilities

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

Other Assets and Deferred Charges

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS
(Continued)**

Asset Retirement Obligations

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

Treasury Shares

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

Revenue Recognition

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

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

Multiple Deliverable Arrangements

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

Loyalty Reward Program

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

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS
(Continued)**

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

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

Equipment Installment Plans

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

Incentives

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

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

Activation Fees

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

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

TDS records amounts collected from customers and remitted to governmental authorities net within a tax liability account if the tax is assessed upon the customer and TDS merely acts as an agent in collecting the tax on behalf of the imposing governmental authority. If the tax is assessed upon TDS, then amounts collected from customers as recovery of the tax are recorded in Service revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS
(Continued)**

customers and remitted to governmental authorities totaled \$113.5 million, \$131.0 million and \$152.4 million for 2014, 2013 and 2012, respectively.

Wholesale Revenues

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

Eligible Telecommunications Carrier ("ETC") Revenues

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

Advertising Costs

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

Income Taxes

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

Stock-Based Compensation

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

TDS values its share-based payment transactions using a Black-Scholes valuation model. Stock-based compensation cost recognized during the period is based on the portion of the share-based payment awards that are ultimately expected to vest. Accordingly, stock-based compensation cost recognized has

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS
(Continued)**

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

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

Recently Issued Accounting Pronouncements

On April 10, 2014, the FASB issued Accounting Standards Update 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ("ASU 2014-08"). ASU 2014-08 changes the requirements and disclosures for reporting discontinued operations. TDS was required to adopt the provisions of ASU 2014-08 effective January 1, 2015, but early adoption was permitted. TDS adopted the provisions of ASU 2014-08 upon its issuance. The adoption of ASU 2014-08 did not have a significant impact on TDS' financial position or results of operations.

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

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

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

On February 18, 2015, the FASB issued Accounting Standards Update 2015-02, *Consolidation: Amendments to the Consolidation Analysis* ("ASU 2015-02"). ASU 2015-02 simplifies consolidation accounting by reducing the number of consolidation models and changing various aspects of current

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS
(Continued)**

GAAP, including certain consolidation criteria for variable interest entities. TDS is required to adopt the provisions of ASU 2015-02 effective January 1, 2016. Early adoption is permitted. TDS is still assessing the impact, if any, the adoption of ASU 2015-02 will have on TDS' financial position or results of operations.

NOTE 2 FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 3 EQUIPMENT INSTALLMENT PLANS**

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

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

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

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

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

NOTE 4 INCOME TAXES

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

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 4 INCOME TAXES (Continued)

Income tax expense (benefit) is summarized as follows:

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

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

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

(1)

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

(2)

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

- (3) Correction of deferred taxes reflects immaterial adjustments to correct deferred tax balances in 2012 related to tax basis and law changes that related to periods prior to 2012.
- (4) Change in federal valuation allowance relates primarily to a decrease to income tax expense in the third quarter of 2014 due to a valuation allowance reduction for federal net operating losses previously limited under loss utilization rules. Due to the shutdown of Airadigm's consumer wireless

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 4 INCOME TAXES (Continued)**

business and resulting intercompany sale of certain assets by Airadigm to U.S. Cellular during the year (as described in Note 6 Acquisitions, Divestitures and Exchanges), Airadigm is expected to recognize sufficient taxable income for TDS to utilize the previously limited net operating losses.

(5)

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

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

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

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

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

	2014	2013	2012
(Dollars in thousands)			

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Balance at January 1,	\$	79,064	\$	70,502	\$	49,686
Charged to income tax expense		34,489		1,954		5,268
Charged to other accounts				6,608		15,548
Balance at December 31,	\$	113,553	\$	79,064	\$	70,502

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 4 INCOME TAXES (Continued)**

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

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

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

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

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

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

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

NOTE 5 EARNINGS PER SHARE

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 5 EARNINGS PER SHARE (Continued)

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

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

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

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

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

Year Ended December 31,	2014	2013	2012
(Shares in thousands)			
Stock options	8,984	7,120	8,130
Restricted stock units	839	171	154
Preferred shares	56		57
			69

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 6 ACQUISITIONS, DIVESTITURES AND EXCHANGES

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

Divestiture Transaction

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

These other agreements included customer and network transition services agreements, which required U.S. Cellular to provide customer, billing and network services to Sprint for a period of up to 24 months after the May 16, 2013 closing date. Sprint reimbursed U.S. Cellular for providing such services at an amount equal to U.S. Cellular's estimated costs, including applicable overhead allocations. These services were substantially complete as of March 31, 2014. In addition, these agreements require Sprint to reimburse U.S. Cellular up to \$200 million (the "Sprint Cost Reimbursement") for certain network decommissioning costs, network site lease rent and termination costs, network access termination costs, and employee termination benefits for specified engineering employees. It is estimated that up to \$175 million of the Sprint Cost Reimbursement will be recorded in (Gain) loss on sale of business and other exit costs, net and up to \$25 million of the Sprint Cost Reimbursement will be recorded in Cost of services the Consolidated Statement of Operations. In 2014 and 2013, \$71.1 million and \$10.6 million, respectively, of the Sprint Cost Reimbursement had been received and recorded in Cash received from divestitures in the Consolidated Statement of Cash Flows.

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 6 ACQUISITIONS, DIVESTITURES AND EXCHANGES (Continued)

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

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

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 6 ACQUISITIONS, DIVESTITURES AND EXCHANGES (Continued)

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

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

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

- (1) Cash settlement amounts are included in either the Net income or changes in Other assets and liabilities line items as part of Cash flows from operating activities in the Consolidated Statement of Cash Flows.
- (2) Adjustment to liability represents changes to previously accrued amounts.

Airadigm Transaction

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

Airadigm has shut down operation of its consumer wireless business and most of the associated network. Except for certain machine to machine operations that will be continued, Airadigm's assets not

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 6 ACQUISITIONS, DIVESTITURES AND EXCHANGES (Continued)

acquired by U.S. Cellular will be sold or otherwise disposed of, its tower leases, interconnection and other agreements will be terminated and most of its employees have been terminated. The shut-down of Airadigm's consumer wireless business was substantially complete in the third quarter of 2014 while network decommissioning is ongoing. As a result of the Agreement and the related impacts from the shut-down of Airadigm's consumer wireless business discussed herein, TDS recognized expenses related to exit and disposal activities within Operating income in its Statement of Operations between the Signing Date and December 31, 2014:

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

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

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

(1) Cash settlement amounts are included in either the Net income or changes in Other assets and liabilities line items as part of Cash flows from operating activities on the Consolidated Statement of Cash Flows.

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

Other Acquisitions, Divestitures and Exchanges

In December 2014, U.S. Cellular entered into an agreement with a third party to sell 595 towers and certain related contracts, assets, and liabilities for approximately \$159 million. This transaction was accomplished in two closings. The first closing occurred in December 2014 and included the sale of 236 towers, without tenants, for \$10.0 million. On this same date, U.S. Cellular received \$7.5 million in earnest money. At the time of the first closing, a \$4.7 million gain was recorded in (Gain) loss on sale of business and

other exit costs, net. The second closing for the remaining 359 towers, primarily with tenants, took place in January 2015, at which time U.S. Cellular received \$141.5 million in additional

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 6 ACQUISITIONS, DIVESTITURES AND EXCHANGES (Continued)

cash proceeds and recorded a gain of approximately \$119 million. The assets and liabilities subject to the second closing have been classified as "held for sale" in the Consolidated Balance Sheet as of December 31, 2014.

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

In September 2014, U.S. Cellular entered into an agreement with a third party to exchange certain of its PCS unbuilt licenses for PCS licenses located in U.S. Cellular's operating markets plus \$117.0 million of cash. This transaction is subject to regulatory approvals and is expected to close in 2015. The book value of the licenses to be exchanged have been classified as "Assets held for sale" in the Consolidated Balance Sheet at December 31, 2014. TDS expects to record a gain when this transaction closes.

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

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

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

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 6 ACQUISITIONS, DIVESTITURES AND EXCHANGES (Continued)**

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

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

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

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

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

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

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

	Allocation of Purchase Price						
	Purchase Price(1)	Goodwill(2)	Licenses	Franchise Rights	Intangible Assets Subject to Amortization(3)	Net Tangible Assets/ Liabilities	
(Dollars in thousands)							
2014							
U.S. Cellular licenses	\$ 41,707	\$	\$ 41,707	\$	\$	\$	
TDS Telecom cable businesses	273,789	33,610	2,703	120,979	14,056	102,441	
Total	\$ 315,496	\$ 33,610	\$ 44,410	\$ 120,979	\$ 14,056	\$ 102,441	
2013							
U.S. Cellular licenses	\$ 16,540	\$	\$ 16,540	\$	\$	\$	

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TDS Telecom cable business	264,069	61,712	123,668	11,542	67,147
TDS Telecom HMS business	43,557	15,203		17,183	11,171
Total	\$ 324,166	\$ 76,915	\$ 16,540	\$ 123,668	\$ 28,725

-
- (1) Cash amounts paid for acquisitions may differ from the purchase price due to cash acquired in the transactions and the timing of cash payments related to the respective transactions.
- (2) The entire amount of Goodwill acquired in 2014 and 2013 was amortizable for income tax purposes.
- (3) At the date of acquisition, the weighted average amortization period for Intangible Assets Subject to Amortization acquired was as follows:
- 2014: 4.6 years for TDS Telecom cable business;
- 2013: 2.9 years for TDS Telecom cable business and 10 years for TDS HMS business

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 6 ACQUISITIONS, DIVESTITURES AND EXCHANGES (Continued)

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

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

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

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

NOTE 7 INTANGIBLE ASSETS

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 7 INTANGIBLE ASSETS (Continued)

Licenses

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

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

Franchise rights

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

Goodwill

(Dollars in thousands)	U.S.					Total
	Cellular	Wireline(1)	Cable	HMS	Other(2)	

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

(1)

In July 2014, TDS Telecom sold certain Wireline markets.

(2)

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 7 INTANGIBLE ASSETS (Continued)**

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

Interim Goodwill Impairment Assessment

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

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

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

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

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

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 8 INVESTMENTS IN UNCONSOLIDATED ENTITIES**

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

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

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

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

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

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 8 INVESTMENTS IN UNCONSOLIDATED ENTITIES (Continued)**NY1 & NY2 Deconsolidation

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

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

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

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

Key assumptions

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

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 9 PROPERTY, PLANT AND EQUIPMENT**

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

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

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

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

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

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 9 PROPERTY, PLANT AND EQUIPMENT (Continued)**

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

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

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

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

NOTE 10 ASSET RETIREMENT OBLIGATIONS

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

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

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

In 2014 and 2013, U.S. Cellular and TDS Telecom performed a review of the assumptions and estimated costs related to asset retirement obligations. The results of the reviews (identified as "Revisions in

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 10 ASSET RETIREMENT OBLIGATIONS (Continued)**

estimated cash outflows") and other changes in asset retirement obligations during 2014 and 2013 were as follows:

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

(1)

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

NOTE 11 DEBT**Revolving Credit Facilities**

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

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

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

revolving credit facilities or obtain access to other credit facilities in the future.

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 11 DEBT (Continued)

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

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

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

The continued availability of the revolving credit facilities requires TDS and U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing. TDS and U.S. Cellular believe they were in compliance as of December 31, 2014 with all covenants and other requirements set forth in the revolving credit facilities.

In connection with U.S. Cellular's revolving credit facility, TDS and U.S. Cellular entered into a subordination agreement dated December 17, 2010 together with the administrative agent for the lenders under U.S. Cellular's revolving credit agreement. Pursuant to this subordination agreement, (a) any consolidated funded indebtedness from U.S. Cellular to TDS will be unsecured and (b) any (i) consolidated funded indebtedness from U.S. Cellular to TDS (other than "refinancing indebtedness" as defined in the subordination agreement) in excess of \$105,000,000, and (ii) refinancing indebtedness in excess of \$250,000,000, will be subordinated and made junior in right of payment to the prior payment in full of obligations to the lenders under U.S. Cellular's revolving credit agreement. As of December 31,

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 11 DEBT (Continued)

2014, U.S. Cellular had no outstanding consolidated funded indebtedness or refinancing indebtedness that was subordinated to the revolving credit agreement pursuant to the subordination agreement.

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

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 11 DEBT (Continued)

Long Term Financing

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

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

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

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 11 DEBT (Continued)**

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

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

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

TDS' long-term debt indentures do not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in TDS' credit rating. However, a downgrade in TDS' credit rating could adversely affect its ability to obtain long-term debt financing in the future.

Term Loan Facility

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

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

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

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

(Dollars in millions)

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

(1)

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 11 DEBT (Continued)**

- (2) The term loan credit facility has commitment fees based on the unsecured senior debt ratings assigned to U.S. Cellular by certain ratings agencies.
- (3) Principal amounts outstanding on the term loan facility will be due and payable quarterly in equal installments beginning on the last day of the fifth fiscal quarter ending after the agreement date, in an amount equal to 1.25% of the aggregate term loan facility commitment. Any amounts owing under the term loan facility not previously repaid will be due and payable on the maturity date.

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

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

NOTE 12 EMPLOYEE BENEFIT PLANS**Defined Contribution Plans**

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

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

Other Post-Retirement Benefits

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

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

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 12 EMPLOYEE BENEFIT PLANS (Continued)**

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

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

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

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

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

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 12 EMPLOYEE BENEFIT PLANS (Continued)

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

December 31, 2013 (Dollars in thousands)	Level 1	Level 2	Total
Mutual funds			
Bond(1)	\$ 12,697	\$	\$ 12,697
International equity(2)	9,876		9,876
Money market(3)	1,798		1,798
US large cap(4)	20,861		20,861
US small cap(5)	4,500		4,500
Other		11	11
Total plan assets at fair value	\$ 49,732	\$ 11	\$ 49,743

-
- (1) Bond The funds seek to achieve a maximum total return, consistent with preservation of capital and prudent investment management by investing in a wide spectrum of fixed income instruments including bonds, debt securities and other similar instruments issued by government and private-sector entities.
- (2) International equity The funds seek to provide long-term capital appreciation by investing in the stocks of companies located outside the United States that are considered to have the potential for above-average capital appreciation.
- (3) Money market The fund seeks as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity by investing in a diversified portfolio of high-quality, dollar-denominated short-term debt securities.
- (4) US large cap The funds seek to track the performance of several benchmark indices that measure the investment return of large-capitalization stocks. The funds attempt to replicate the indices by investing substantially all of their assets in the stocks that make up the various indices in approximately the same proportion as the weighting in the indices.

(5)

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 12 EMPLOYEE BENEFIT PLANS (Continued)**

The following table summarizes how plan assets are invested.

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

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

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

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

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

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

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

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 12 EMPLOYEE BENEFIT PLANS (Continued)**

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

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

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

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

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

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

**One Percent
Increase Decrease**

(Dollars in thousands)

Effect on total service and interest cost components	\$ 25	\$ (23)
Effect on post-retirement benefit obligation	\$ 423	\$ (393)

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

Year**(Dollars in thousands)**

2015	\$ 1,687
2016	1,719
2017	1,662
2018	1,652
2019	1,667
2020-2024	9,442

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 13 COMMITMENTS AND CONTINGENCIES**Agreements

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

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

Lease Commitments

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

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

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

*

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

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 13 COMMITMENTS AND CONTINGENCIES (Continued)

Indemnifications

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

Legal Proceedings

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

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

NOTE 14 VARIABLE INTEREST ENTITIES (VIEs)

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

Consolidated VIEs

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

Advantage Spectrum L.P. ("Advantage Spectrum") and Frequency Advantage L.P., the general partner of Advantage Spectrum;

Aquinas Wireless L.P. ("Aquinas Wireless"); and

King Street Wireless L.P. ("King Street Wireless") and King Street Wireless, Inc., the general partner of King Street Wireless.

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 14 VARIABLE INTEREST ENTITIES (VIEs) (Continued)**

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

The following table presents the classification of the consolidated VIEs' assets and liabilities in TDS' Consolidated Balance Sheet.

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

Other Related Matters

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

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

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 14 VARIABLE INTEREST ENTITIES (VIEs) (Continued)**

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

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

NOTE 15 NONCONTROLLING INTERESTS

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

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 15 NONCONTROLLING INTERESTS (Continued)

Mandatorily Redeemable Noncontrolling Interests in Finite-Lived Subsidiaries

TDS' consolidated financial statements include certain noncontrolling interests that meet the GAAP definition of mandatorily redeemable financial instruments. These mandatorily redeemable noncontrolling interests represent interests held by third parties in consolidated partnerships, where the terms of the underlying partnership agreement provide for a defined termination date at which time the assets of the subsidiary are to be sold, the liabilities are to be extinguished and the remaining net proceeds are to be distributed to the noncontrolling interest holders and TDS in accordance with the respective partnership agreements. The termination dates of these mandatorily redeemable noncontrolling interests range from 2085 to 2113.

The estimated aggregate amount that would be due and payable to settle all of these noncontrolling interests, assuming an orderly liquidation of the finite-lived consolidated partnerships on December 31, 2014, net of estimated liquidation costs, is \$3.6 million. This amount excludes redemption amounts recorded in Noncontrolling interests with redemption features in the Consolidated Balance Sheet. The estimate of settlement value was based on certain factors and assumptions which are subjective in nature. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount. TDS currently has no plans or intentions relating to the liquidation of any of the related partnerships prior to their scheduled termination dates. The corresponding carrying value of the mandatorily redeemable noncontrolling interests in finite-lived consolidated partnerships at December 31, 2014 was \$3.0 million, and is included in Noncontrolling interests in the Consolidated Balance Sheet. The excess of the aggregate settlement value over the aggregate carrying value of these mandatorily redeemable noncontrolling interests is due primarily to the unrecognized appreciation of the noncontrolling interest holders' share of the underlying net assets in the consolidated partnerships. Neither the noncontrolling interest holders' share, nor TDS' share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements.

NOTE 16 COMMON SHAREHOLDERS' EQUITY

Common Stock

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 16 COMMON SHAREHOLDERS' EQUITY (Continued)**

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

Tax-Deferred Savings Plan

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

Common Share RepurchasesTDS and U.S. Cellular Share Repurchases

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

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

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Notes to Consolidated Financial Statements

NOTE 16 COMMON SHAREHOLDERS' EQUITY (Continued)

Share repurchases made under these authorizations and prior authorizations, were as follows:

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

NOTE 17 STOCK-BASED COMPENSATION

TDS Consolidated

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

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

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

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

December 31, (Dollars in thousands)	2014	2013	2012
Selling, general and administrative expense	\$ 32,505	\$ 27,130	\$ 38,563
Cost of services and products	3,288	3,208	3,308

Total stock-based compensation	\$	35,793	\$	30,338	\$	41,871
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TDS' tax benefits realized from the exercise of stock options and other awards totaled \$8.6 million in 2014.

TDS (excluding U.S. Cellular)

The information in this section relates to stock-based compensation plans using the equity instruments of TDS. Participants in these plans are employees of TDS Corporate and TDS Telecom and Non-employee

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 17 STOCK-BASED COMPENSATION (Continued)**

Directors of TDS. Information related to plans using the equity instruments of U.S. Cellular are shown in the U.S. Cellular section following the TDS section.

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

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

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

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

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

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

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

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

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

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Notes to Consolidated Financial Statements

NOTE 17 STOCK-BASED COMPENSATION (Continued)

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

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

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

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 17 STOCK-BASED COMPENSATION (Continued)**

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

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

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

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

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

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

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

U.S. Cellular

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

Table of Contents**Telephone and Data Systems, Inc.****Notes to Consolidated Financial Statements****NOTE 17 STOCK-BASED COMPENSATION (Continued)**

U.S. Cellular. Information related to plans using the equity instruments of TDS are shown in the previous section.

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

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

On June 25, 2013, U.S. Cellular paid a special cash dividend to all holders of U.S. Cellular Common Shares and Series A Common Shares as of June 11, 2013. Outstanding U.S. Cellular stock options, restricted stock unit awards and deferred compensation stock units were equitably adjusted for the special cash dividend. The impact of such adjustments are fully reflected for all years presented. See Note 5 Earnings Per Share for additional information.

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

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

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

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

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

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

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

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Telephone and Data Systems, Inc.

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NOTE 17 STOCK-BASED COMPENSATION (Continued)

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

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

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

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

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

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Notes to Consolidated Financial Statements

NOTE 17 STOCK-BASED COMPENSATION (Continued)

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

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

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

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

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

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

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Notes to Consolidated Financial Statements

NOTE 18 BUSINESS SEGMENT INFORMATION

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

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

Period Ended or as of December 31, 2014 (dollars in thousands)	TDS Telecom					TDS Telecom Total	Corporate, Eliminations and Other	Total
	U.S. Cellular	Wireline	Cable	HMS	TDS Telecom Eliminations			
Operating revenues								
Service	\$ 3,397,937	\$ 714,586	\$ 116,855	\$ 109,766	\$ (3,697)	\$ 937,510	\$ (6,793)	\$ 4,328,600
Equipment and product sales	494,810	1,836		148,966		150,802	35,172	680,794
Total operating revenues	3,892,747	716,422	116,855	258,732	(3,697)	1,088,312	28,379	5,009,463
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	1,164,687
Cost of equipment and products	1,192,669	2,336		126,362		128,698	25,444	1,346,809
Marketing, general and administrative	1,591,914	189,956	36,175	53,020	(193)	278,958	(5,065)	1,865,817
Depreciation, amortization and accretion	605,997	169,044	23,643	26,912		219,599	10,936	836,531
Provisions on impairment of assets				84,000		84,000	3,802	87,802
(Income) loss on asset disposals, net	21,469	2,091	2,482	181		4,754	308	26,935
(Income) loss on sale of business and other								
Restructuring costs, net	(32,830)	(2,357)				(2,357)	19,341	(15,846)
(Income) loss on license sales and exchanges	(112,993)							(112,993)
Operating income (loss)	(143,390)	98,474	290	(109,135)		(10,371)	(36,103)	(189,835)
Proportionate share of equity in earnings of unconsolidated entities	129,764	8				8	2,193	131,973
Interest and dividend income	12,148	2,396	8	26		2,430	2,379	16,977
Interest expense	(57,386)	2,695	95	(1,602)		1,188	(55,199)	(111,309)
Other, net	160	(32)	(1)	12		(21)	(24)	134
Income (loss) before income taxes	(58,704)	103,541	392	(110,699)		(6,766)	(86,754)	(152,226)
Income tax benefit:								
Depreciation, amortization and accretion	605,997	169,044	23,643	26,912		219,599	10,936	836,531
Provisions on impairment of assets				84,000		84,000	3,802	87,802
Restructuring costs, net	(32,830)	(2,357)				(2,357)	19,341	(15,846)

(n) loss on sale of business and other costs, net								
(n) loss on license sales and exchanges	(112,993)							(112,993)
rest expense	57,386	(2,695)	(95)	1,602	(1,188)	55,199		111,309
Adjusted income before income taxes	\$ 458,856	\$ 267,533	\$ 23,940	\$ 1,815	\$ 293,288	\$ 2,524		\$ 754,606
Investments in unconsolidated entities	\$ 283,014	\$ 3,803	\$	\$	\$ 3,803	\$ 34,912	\$	\$ 321,532
Net assets	\$ 6,487,268	\$ 1,419,478	\$ 563,585	\$ 268,972	\$ 2,252,035	\$ 167,636	\$	\$ 8,906,974
Capital expenditures	\$ 557,615	\$ 135,805	\$ 35,640	\$ 36,618	\$ 208,063	\$ 4,899	\$	\$ 770,630

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 18 BUSINESS SEGMENT INFORMATION (Continued)

Year Ended or as of December 31, 2013 (dollars in thousands)	TDS Telecom				Corporate, Eliminations and Other		Total	
	U.S. Cellular	Wireline	Cable	HMS	TDS Telecom Eliminations	TDS Telecom Total		Reconciling Items
Operating revenues								
Service	\$ 3,594,773	\$ 723,372	\$ 35,883	\$ 94,875	\$ (1,063)	\$ 853,067	\$ (4,349)	\$ 4,443,4
Equipment and product sales	324,063	3,195		90,741		93,936	39,746	457,7
Total operating revenues	3,918,836	726,567	35,883	185,616	(1,063)	947,003	35,397	4,901,2
Cost of services (excluding Depreciation, amortization and accretion reported below)	763,435	266,635	17,274	60,423	(1,000)	343,332	11,416	1,118,1
Cost of equipment and products	999,000	3,831		75,991		79,822	28,311	1,107,1
Selling, general and administrative	1,677,395	220,097	11,054	44,945	(63)	276,033	(5,650)	1,947,7
Depreciation, amortization and accretion	803,781	170,868	7,571	24,262		202,701	11,595	1,018,0
(in) loss on asset disposals, net	30,606	130	28	125		283	(48)	30,8
(in) loss on sale of business and other assets, net	(246,767)						(53,889)	(300,6
(in) loss on license sales and exchanges	(255,479)							(255,4
Operating income (loss)	146,865	65,006	(44)	(20,130)		44,832	43,662	235,3
Equity in earnings of unconsolidated entities	131,949	19				19	746	132,7
Interest and dividend income	3,961	1,759	2	63		1,824	3,307	9,0
Gain (loss) on investments	18,556	830				830	(4,839)	14,5
Interest expense	(43,963)	3,265	(74)	(1,626)		1,565	(56,413)	(98,8
Other, net	288	(214)		29		(185)	(140)	(
Income (loss) before income taxes	257,656	70,665	(116)	(21,664)		48,885	(13,677)	292,8
Adjust back:								
Depreciation, amortization and accretion	803,781	170,868	7,571	24,262		202,701	11,595	1,018,0
(in) loss on sale of business and other assets, net	(246,767)						(53,889)	(300,6
(in) loss on license sales and exchanges	(255,479)							(255,4
Gain (loss) on investments	(18,556)	(830)				(830)	4,839	(14,5
Interest expense	43,963	(3,265)	74	1,626		(1,565)	56,413	98,8
Adjusted income before income taxes	\$ 584,598	\$ 237,438	\$ 7,529	\$ 4,224	\$	\$ 249,191	\$ 5,281	\$ 839,0

Investments in unconsolidated entities	\$ 265,585	\$ 3,809	\$	\$	\$ 3,809	\$ 32,378	\$ 301,7
Net assets	\$ 6,445,708	\$ 1,452,502	\$ 278,969	\$ 328,397	\$ 2,059,868	\$ 398,571	\$ 8,904,1
Capital expenditures	\$ 737,501	\$ 140,009	\$ 8,375	\$ 16,474	\$ 164,858	\$ 7,301	\$ 909,6

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Notes to Consolidated Financial Statements

NOTE 18 BUSINESS SEGMENT INFORMATION (Continued)

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

Investments in unconsolidated entities	\$ 144,531	\$ 3,809	\$	\$ 3,809	\$ 31,581	\$ 179,921
Total assets	\$ 6,587,450	\$ 1,519,698	\$ 267,798	\$ 1,787,496	\$ 248,954	\$ 8,623,900
Capital expenditures	\$ 836,748	\$ 158,580	\$ 15,344	\$ 173,924	\$ (6,051)	\$ 1,004,621

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

NOTE 19 SUPPLEMENTAL CASH FLOW DISCLOSURES

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

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

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 19 SUPPLEMENTAL CASH FLOW DISCLOSURES (Continued)

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

U.S. Cellular:

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

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

On September 27, 2012, the FCC conducted a single round, sealed bid, reverse auction to award up to \$300 million in one-time Mobility Fund Phase I support to successful bidders that commit to provide 3G, or better, wireless service in areas designated as unserved by the FCC. This auction was designated by the FCC as Auction 901. U.S. Cellular and several of its wholly-owned subsidiaries participated in Auction 901 and were winning bidders in eligible areas within 10 states and will receive up to \$40.1 million in one-time support from the Mobility Fund. These funds when received reduce the carrying amount of the assets to which they relate or offset operating expenses. In connection with these winning bids, in June 2013, U.S. Cellular provided \$17.4 million letters of credit to the FCC, of which the entire amount remained outstanding as of December 31, 2014. U.S. Cellular has received \$13.4 million in support funds as of December 31, 2014, of which \$1.9 million is included as a component of Other assets and deferred charges in the Consolidated Balance Sheet and \$11.5 million reduced the carrying amount of the assets to which they relate, which are included in Property, plant and equipment in the Consolidated Balance Sheet.

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

NOTE 20 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

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Telephone and Data Systems, Inc.

REPORTS OF MANAGEMENT

Management's Responsibility for Financial Statements

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

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

/s/ LeRoy T. Carlson, Jr.

/s/ Douglas D. Shuma

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

Douglas D. Shuma
Senior Vice President
and Controller
(principal financial officer and
principal accounting officer)

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Telephone and Data Systems, Inc.

Management's Report on Internal Control Over Financial Reporting

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

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

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

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

/s/ LeRoy T. Carlson, Jr.

/s/ Douglas D. Shuma

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

Douglas D. Shuma
Senior Vice President
and Controller
(principal financial officer and
principal accounting officer)

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Telephone and Data Systems, Inc.

Report of Independent Registered Public Accounting Firm

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

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

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

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

/s/ PricewaterhouseCoopers LLP

Chicago, Illinois
February 25, 2015

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Telephone and Data Systems, Inc.

SELECTED CONSOLIDATED FINANCIAL DATA

Year Ended or at December 31, (Dollars and shares in thousands, except per share amounts)	2014	2013	2012	2011	2010
Statement of Operations data					
Operating revenues	\$ 5,009,438	\$ 4,901,236	\$ 5,345,277	\$ 5,180,471	\$ 4,986,829
Loss on impairment of assets(1)	87,802		515		
(Gain) loss on sale of business and other exit costs, net	(15,846)	(300,656)	21,061		
(Gain) loss on license sales and exchanges	(112,993)	(255,479)		(11,762)	
Operating income (loss)	(189,864)	235,359	183,863	362,502	296,091
Gain (loss) on investments		14,547	(3,718)	24,103	
Net income (loss)	(147,292)	166,821	122,653	250,242	190,586
Net income (loss) attributable to noncontrolling interests, net of tax	(10,937)	24,894	40,792	49,676	45,737
Net income (loss) attributable to TDS shareholders	(136,355)	141,927	81,861	200,566	144,849
Net income (loss) available to common	\$ (136,404)	\$ 141,878	\$ 81,811	\$ 200,516	\$ 144,799
Basic weighted average shares outstanding	108,485	108,490	108,671	108,562	110,016
Basic earnings (loss) per share attributable to TDS shareholders	\$ (1.26)	\$ 1.31	\$ 0.75	\$ 1.85	\$ 1.32
Diluted weighted average shares outstanding	108,485	109,132	108,937	109,098	110,488
Diluted earnings (loss) per share attributable to TDS shareholders	\$ (1.26)	\$ 1.29	\$ 0.75	\$ 1.83	\$ 1.31
Dividends per Common, Special Common and Series A Common Share(2)	\$ 0.54	\$ 0.51	\$ 0.49	\$ 0.47	\$ 0.45
Balance Sheet data					
Cash and cash equivalents	\$ 471,901	\$ 830,014	\$ 740,481	\$ 563,275	\$ 341,683
Property, plant and equipment, net	3,846,125	3,878,144	3,997,266	3,784,535	3,517,784
Total assets	8,906,939	8,904,147	8,623,900	8,201,005	7,696,117
Long-term debt, excluding current portion	1,993,586	1,720,074	1,721,571	1,529,857	1,499,862
Total TDS shareholders' equity	3,926,278	4,117,837	4,011,536	3,962,161	3,817,895
Capital expenditures	\$ 770,577	\$ 909,660	\$ 1,004,621	\$ 987,218	\$ 755,032

(1) Includes Loss on Impairment of intangible assets related to Goodwill in 2014 and 2012.

(2) Dividends per share reflects the amount paid per share outstanding at the date the dividend was declared and has not been retroactively adjusted to reflect the impact of the Share Consolidation Amendment approved by TDS shareholders on January 13, 2012.

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Telephone and Data Systems, Inc.

CONSOLIDATED QUARTERLY INFORMATION (UNAUDITED)

	Quarter Ended			
	March 31	June 30	September 30	December 31
(Amounts in thousands, except per share amounts)				
2014				
Operating revenues	\$ 1,195,962	\$ 1,236,392	\$ 1,280,023	\$ 1,297,061
(Gain) loss on asset disposals, net(1)	2,430	7,903	9,293	6,905
(Gain) loss on sale of business and other exit costs, net(1)	(6,900)	2,611	(4,790)	(6,767)
(Gain) loss on license sales and exchanges(1)	(91,446)			(21,547)
Loss on impairment of assets(2)			84,000	3,802
Operating income (loss)	20,685	(49,090)	(125,415)	(36,044)
Net income (loss)	20,294	(25,726)	(121,199)	(20,661)
Net income (loss) attributable to TDS shareholders	\$ 18,254	\$ (22,038)	\$ (116,030)	\$ (16,541)
Basic weighted average shares outstanding	108,988	108,719	108,252	107,995
Basic earnings (loss) per share attributable to TDS shareholders	\$ 0.17	\$ (0.20)	\$ (1.07)	\$ (0.15)
Diluted weighted average shares outstanding	109,672	108,719	108,252	107,995
Diluted earnings (loss) per share attributable to TDS shareholders	\$ 0.16	\$ (0.20)	\$ (1.07)	\$ (0.15)
Stock price				
TDS Common Shares(3)				
High	\$ 27.90	\$ 28.41	\$ 26.93	\$ 26.49
Low	21.30	24.67	23.08	22.19
Close	26.21	26.11	23.96	25.25
Dividends paid	\$ 0.1340	\$ 0.1340	\$ 0.1340	\$ 0.1340

	Quarter Ended			
	March 31	June 30	September 30	December 31
(Amounts in thousands, except per share amounts)				
2013				
Operating revenues	\$ 1,308,573	\$ 1,228,166	\$ 1,180,980	\$ 1,183,517
(Gain) loss on sale of business and other exit costs, net(1)	6,931	(303,034)	(1,534)	(3,019)
(Gain) loss on license sales and exchanges(1)				(255,479)
Operating income (loss)	7,154	282,227	(33,085)	(20,937)
Gain (loss) on investments(1)		14,518		29
Net income (loss)	6,989	178,397	(11,054)	(7,511)
Net income (loss) attributable to TDS shareholders	\$ 1,419	\$ 156,077	\$ (9,512)	\$ (6,057)
Basic weighted average shares outstanding	108,255	108,385	108,571	108,742

Basic earnings (loss) per share attributable to TDS shareholders	\$	0.01	\$	1.44	\$	(0.09)	\$	(0.06)
Diluted weighted average shares outstanding		108,693		108,913		108,571		108,742
Diluted earnings (loss) per share attributable to TDS shareholders	\$	0.01	\$	1.42	\$	(0.09)	\$	(0.06)
Stock price								
TDS Common Shares(3)								
High	\$	26.17	\$	24.87	\$	29.83	\$	31.52
Low		20.79		20.57		23.21		24.22
Close		21.07		24.65		29.55		25.78
Dividends paid	\$	0.1275	\$	0.1275	\$	0.1275	\$	0.1275

- (1) See Note 9 Property, Plant and Equipment for additional information on (Gain) loss on asset disposals, net. See Note 6 Acquisitions, Divestitures and Exchanges for additional information on (Gain) loss on sale of business and other exit costs, net and (Gain) loss on license sales and exchanges. See Note 8 Investments in Unconsolidated Entities for additional information on Gain (loss) on investments in 2013.
- (2) During the third quarter of 2014, TDS recognized a Loss on impairment of assets related to goodwill of \$84.0 million. See Note 7 Intangible Assets for additional information.
- (3) The high, low and closing sales prices as reported by the New York Stock Exchange ("NYSE").

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Telephone and Data Systems, Inc.

SHAREHOLDER INFORMATION

Stock and dividend information

TDS' Common Shares are listed on the New York Stock Exchange ("NYSE") under the symbol "TDS." As of January 31, 2015, the last trading day of the month, TDS Common Shares were held by approximately 1,460 record owners, and the Series A Common Shares were held by approximately 80 record owners.

TDS has paid cash dividends on its common stock since 1974, and paid dividends of \$0.54 per Common and Series A Common Share during 2014. During 2013, TDS paid dividends of \$0.51 per Common and Series A Common Share.

The Common Shares of United States Cellular Corporation, an 84%-owned subsidiary of TDS, are listed on the NYSE under the symbol "USM."

See "Consolidated Quarterly Information (Unaudited)" for information on the high and low trading prices of the TDS Common Shares for 2014 and 2013.

Stock performance graph

The following chart provides a comparison of TDS' cumulative total return to shareholders (stock price appreciation plus dividends) during the previous five years to the returns of the Standard & Poor's 500 Composite Stock Price Index and the Dow Jones U.S. Telecommunications Index. As of December 31, 2014, the Dow Jones U.S. Telecommunications Index was composed of the following companies: AT&T Inc., CenturyLink Inc., Frontier Communications Corp., Level 3 Communications Inc., SBA Communications Corp., Sprint Corp., T-Mobile US Inc., Telephone and Data Systems, Inc. (TDS), Verizon Communications Inc., and Windstream Holdings, Inc.

*

Cumulative total return assumes reinvestment of dividends

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	2009	2010	2011	2012	2013	2014
Telephone and Data Systems Common Shares (NYSE: TDS)	\$ 100	\$ 109.13	\$ 78.69	\$ 74.67	\$ 88.82	\$ 88.84
S&P 500 Index	100	115.06	117.49	136.30	180.44	205.14
Dow Jones U.S. Telecommunications Index	100	117.74	122.41	145.42	165.96	169.93

Assumes \$100.00 invested at the close of trading on the last trading day preceding the first day of 2009, in TDS Common Shares, S&P 500 Index and the Dow Jones U.S. Telecommunications Index.

Dividend reinvestment plan

TDS' dividend reinvestment plans provide its common and preferred shareholders with a convenient and economical way to participate in the future growth of TDS. Holders of record of ten (10) or more Common Shares or Preferred Shares may purchase Common Shares with their reinvested dividends at a five percent discount from market price. Common Shares may also be purchased, at market price, on a monthly basis through optional cash payments by participants in this plan. The initial ten (10) shares cannot be purchased directly from TDS. An authorization card and prospectus will be mailed automatically by the transfer agent to all registered record holders with ten (10) or more shares. Once enrolled in the plan, there are no brokerage commissions or service charges for purchases made under the plan.

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Telephone and Data Systems, Inc.

SHAREHOLDER INFORMATION

Investor relations

TDS' annual report, SEC filings and news releases are available to investors, securities analysts and other members of the investment community. These reports are provided, without charge, upon request to our Corporate Office. Investors may also access these and other reports through the Investor Relations portion of the TDS website (www.tdsinc.com).

Questions regarding lost, stolen or destroyed certificates, consolidation of accounts, transferring of shares and name or address changes should be directed to:

Julie Mathews, Manager Investor Relations
Telephone and Data Systems, Inc.
30 North LaSalle Street, Suite 4000
Chicago, IL 60602
312.592.5341
312.630.9299 (fax)
julie.mathews@tdsinc.com

General inquiries by investors, securities analysts and other members of the investment community should be directed to:

Jane W. McCahon, Vice President Corporate Relations and Corporate Secretary
Telephone and Data Systems, Inc.
30 North LaSalle Street, Suite 4000
Chicago, IL 60602
312.592.5379
312.630.9299 (fax)
jane.mccahon@tdsinc.com

Directors and executive officers

See "Election of Directors" and "Executive Officers" sections of the Proxy Statement issued in 2015 for the 2015 Annual Meeting.

Principal counsel

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Transfer agent

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Independent registered public accounting firm

PricewaterhouseCoopers LLP

Visit TDS' web site at www.tdsinc.com

