

UNITED STATES CELLULAR CORP  
 Form 10-Q  
 October 31, 2014

<b>UNITED STATES</b>																	
<b>SECURITIES AND EXCHANGE COMMISSION</b>																	
<b>Washington, D.C. 20549</b>																	
<b>FORM 10-Q</b>																	
<b>(Mark One)</b>																	
<input checked="" type="checkbox"/>	<b>QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934</b>																
<b>For the quarterly period ended September 30, 2014</b>																	
<b>OR</b>																	
<input type="checkbox"/>	<b>TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934</b>																
<b>For the transition period from _____ to _____</b>																	
<b>Commission file number 1-9712</b>																	
<b>UNITED STATES CELLULAR CORPORATION</b>																	
(Exact name of Registrant as specified in its charter)																	
<b>Delaware</b>									<b>62-1147325</b>								
(State or other jurisdiction of incorporation or organization)									(IRS Employer Identification No.)								
<b>8410 West Bryn Mawr, Chicago, Illinois 60631</b>																	
(Address of principal executive offices) (Zip code)																	
<b>Registrant's telephone number, including area code: (773) 399-8900</b>																	
<b>Indicate by check mark</b>																<b>Yes</b>	<b>No</b>
<ul style="list-style-type: none"> <li>whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.</li> </ul>																x	o

• whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	x	o
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• whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.		
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Large accelerated filer	o	Accelerated filer	x	Non-accelerated filer	o	Smaller reporting company	o									

• whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).	o	x
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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<b>Class</b>										<b>Outstanding at September 30, 2014</b>						
Common Shares, \$1 par value										51,144,194 Shares						
Series A Common Shares, \$1 par value										33,005,877 Shares						

<b>United States Cellular Corporation</b>			
<b>Quarterly Report on Form 10-Q</b>			
<b>For the Quarterly Period Ended September 30, 2014</b>			
<b><u>Index</u></b>			
			<u>Page No.</u>
<u>Part I.</u>	<u>Financial Information</u>		
	<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	<u>1</u>
		<u>Consolidated Statement of Operations</u>	<u>1</u>
		<u>Three and Nine Months Ended September 30, 2014 and 2013</u>	
		<u>Consolidated Statement of Cash Flows</u>	<u>2</u>
		<u>Nine Months Ended September 30, 2014 and 2013</u>	
		<u>Consolidated Balance Sheet</u>	<u>3</u>
		<u>September 30, 2014 and December 31, 2013</u>	
		<u>Consolidated Statement of Changes in Equity</u>	<u>5</u>
		<u>Nine Months Ended September 30, 2014 and 2013</u>	
		<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
	<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
		<u>Overview</u>	<u>16</u>
		<u>Results of Operations</u>	<u>20</u>
		<u>Recent Accounting Pronouncements</u>	<u>30</u>
		<u>Financial Resources</u>	<u>30</u>
		<u>Liquidity and Capital Resources</u>	<u>31</u>

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		<u>Application of Critical Accounting Policies and Estimates</u>	<u>34</u>
		<u>Certain Relationships and Related Transactions</u>	<u>34</u>
		<u>Safe Harbor Cautionary Statement</u>	<u>35</u>
	<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
	<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>38</u>
<u>Part II.</u>	<u>Other Information</u>		
	<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>38</u>
	<u>Item 1A.</u>	<u>Risk Factors</u>	<u>38</u>
	<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>40</u>
	<u>Item 5.</u>	<u>Other Information</u>	<u>40</u>
	<u>Item 6.</u>	<u>Exhibits</u>	<u>41</u>
<u>Signatures</u>			

## Table of Contents

<b>Part I. Financial Information</b>													
<b>Item 1. Financial Statements</b>													
<b>United States Cellular Corporation</b>													
<b><u>Consolidated Statement of Operations</u></b>													
<b>(Unaudited)</b>													
				<b>Three Months Ended</b>			<b>Nine Months Ended</b>						
				<b>September 30,</b>			<b>September 30,</b>						
<b>(Dollars and shares in thousands, except per share amounts)</b>				<b>2014</b>			<b>2013</b>						
				<b>2014</b>			<b>2013</b>						
<b>Operating revenues</b>													
	Service		\$	851,063		\$	862,330		\$	2,548,149		\$	2,769,645
	Equipment sales			149,356			76,906			335,854			246,467
	Total operating revenues			1,000,419			939,236			2,884,003			3,016,112
<b>Operating expenses</b>													
	System operations (excluding Depreciation, amortization and accretion reported below)			199,750			177,431			567,488			585,997
	Cost of equipment sold			307,862			193,392			850,314			652,153
	Selling, general and administrative (including charges from affiliates of \$21.5 million and \$22.7 million, respectively, for the three months, and \$65.6 million and \$71.2 million, respectively, for the nine months)			397,545			410,468			1,197,361			1,234,675
	Depreciation, amortization and accretion			148,952			200,985			465,042			593,410
	(Gain) loss on asset disposals, net			7,947			1,701			16,774			16,153
	(Gain) loss on sale of business and other exit costs, net			(10,283)			(1,534)			(27,694)			(243,627)
				-			-			(91,446)			-

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	(Gain) loss on license sales and exchanges								
	Total operating expenses	1,051,773		982,443		2,977,839			2,838,761
	<b>Operating income (loss)</b>	(51,354)		(43,207)		(93,836)			177,351
	<b>Investment and other income (expense)</b>								
	Equity in earnings of unconsolidated entities	35,971		37,360		106,166			99,797
	Interest and dividend income	3,572		1,095		6,029			2,967
	Gain (loss) on investments	-		-		-			18,527
	Interest expense	(13,514)		(11,329)		(42,712)			(32,393)
	Other, net	95		47		281			153
	Total investment and other income	26,124		27,173		69,764			89,051
	<b>Income (loss) before income taxes</b>	(25,230)		(16,034)		(24,072)			266,402
	Income tax expense (benefit)	(1,459)		(6,433)		746			121,618
	<b>Net income (loss)</b>	(23,771)		(9,601)		(24,818)			144,784
	Less: Net income (loss) attributable to noncontrolling interests, net of tax	(1,606)		258		(3,346)			6,338
	<b>Net income (loss) attributable to U.S. Cellular shareholders</b>	\$ (22,165)		\$ (9,859)		\$ (21,472)			\$ 138,446
	<b>Basic weighted average shares outstanding</b>	84,233		84,005		84,262			83,897
	<b>Basic earnings (loss) per share attributable to</b>								
	<b>U.S. Cellular shareholders</b>	\$ (0.26)		\$ (0.12)		\$ (0.25)			\$ 1.65
	<b>Diluted weighted average shares outstanding</b>	84,233		84,005		84,262			84,676
	<b>Diluted earnings (loss) per share attributable to</b>								
	<b>U.S. Cellular shareholders</b>	\$ (0.26)		\$ (0.12)		\$ (0.25)			\$ 1.64
	<b>Special dividend per share to U.S. Cellular shareholders</b>	\$ -		\$ -		\$ -			\$ 5.75

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

Table of Contents

<b>United States Cellular Corporation</b>					
<b><u>Consolidated Statement of Cash Flows</u></b>					
<b><u>(Unaudited)</u></b>					
				<b>Nine Months Ended</b>	
				<b>September 30,</b>	
<b>(Dollars in thousands)</b>				<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>					
	Net income (loss)			\$ (24,818)	\$ 144,784
	Add (deduct) adjustments to reconcile net income to cash flows from operating activities				
	Depreciation, amortization and accretion			465,042	593,410
	Bad debts expense			74,357	52,184
	Stock-based compensation expense			16,502	11,143
	Deferred income taxes, net			(14,124)	(38,515)
	Equity in earnings of unconsolidated entities			(106,166)	(99,797)
	Distributions from unconsolidated entities			74,853	49,612
	(Gain) loss on asset disposals, net			16,774	16,153
	(Gain) loss on sale of business and other exit costs, net			(27,694)	(243,627)
	(Gain) loss on investments			-	(18,527)
	(Gain) loss on license sales and exchanges			(91,446)	-
	Noncash interest expense			845	792
	Other operating activities			66	590
<b>Changes in assets and liabilities from operations</b>					
	Accounts receivable			(4,790)	(214,114)
	Inventory			53,367	13,236
	Accounts payable - trade			23,436	32,202
	Accounts payable - affiliate			(1,759)	345
	Customer deposits and deferred revenues			37,636	22,538
	Accrued taxes			(18,453)	45,780
	Accrued interest			9,140	9,385
	Other assets and liabilities			(152,137)	(81,341)
				330,631	296,233
<b>Cash flows from investing activities</b>					
	Cash used for additions to property, plant and equipment			(424,774)	(522,180)
	Cash paid for acquisitions and licenses			(37,978)	(16,540)
	Cash received from divestitures			143,801	484,300
	Cash received for investments			10,000	65,000
	Other investing activities			804	583



					(308,147)			11,163
<b>Cash flows from financing activities</b>								
	Repayment of long-term debt				(38)			(393)
	Common shares reissued for benefit plans, net of tax payments				1,150			2,840
	Common shares repurchased				(14,698)			(18,544)
	Acquisition of licenses in common control transaction				(76,298)			-
	Dividends paid				-			(482,270)
	Distributions to noncontrolling interests				(439)			(3,447)
	Other financing activities				(428)			(839)
					(90,751)			(502,653)
<b>Net decrease in cash and cash equivalents</b>					(68,267)			(195,257)
<b>Cash and cash equivalents</b>								
	Beginning of period				342,065			378,358
	End of period			\$	273,798		\$	183,101
The accompanying notes are an integral part of these consolidated financial statements.								

Table of Contents

<b>United States Cellular Corporation</b>				
<b>Consolidated Balance Sheet — Assets</b>				
<b>(Unaudited)</b>				
<b>(Dollars in thousands)</b>		<b>September 30,</b>		<b>December 31,</b>
		<b>2014</b>		<b>2013</b>
<b>Current assets</b>				
	Cash and cash equivalents	\$	273,798	\$ 342,065
	Short-term investments		40,014	50,104
	Accounts receivable			
	Customers and agents, less allowances of \$37,270 and \$59,206, respectively		411,029	467,255
	Roaming		32,003	30,136
	Affiliated		13	980
	Other, less allowances of \$746 and \$1,032, respectively		73,328	88,224
	Inventory, net		184,822	238,188
	Prepaid expenses		62,158	65,596
	Net deferred income tax asset		97,856	99,105
	Other current assets		23,237	19,538
			1,198,258	1,401,191
<b>Assets held for sale</b>			68,288	16,027
<b>Investments</b>				
	Licenses		1,390,672	1,401,126
	Goodwill		387,524	387,524
	Investments in unconsolidated entities		296,900	265,585
			2,075,096	2,054,235
<b>Property, plant and equipment</b>				
	In service and under construction		7,647,406	7,717,512
	Less: Accumulated depreciation		4,900,957	4,860,992
			2,746,449	2,856,520
<b>Other assets and deferred charges</b>			168,984	117,735
<b>Total assets</b>		<b>\$</b>	<b>6,257,075</b>	<b>\$ 6,445,708</b>

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



Table of Contents

<b>United States Cellular Corporation</b>					
<b><u>Consolidated Balance Sheet — Liabilities and Equity</u></b>					
<b><u>(Unaudited)</u></b>					
<b>(Dollars and shares in thousands)</b>				<b>September 30,</b>	<b>December 31,</b>
				<b>2014</b>	<b>2013</b>
<b>Current liabilities</b>					
	Current portion of long-term debt			\$ 46	\$ 166
	Accounts payable				
		Affiliated		10,367	11,243
		Trade		395,484	405,583
	Customer deposits and deferred revenues			294,377	256,740
	Accrued taxes			55,091	73,820
	Accrued compensation			57,573	66,566
	Other current liabilities			132,294	192,055
				945,232	1,006,173
<b>Deferred liabilities and credits</b>					
	Net deferred income tax liability			790,618	836,297
	Other deferred liabilities and credits			305,891	315,073
<b>Long-term debt</b>					
				876,756	878,032
<b>Commitments and contingencies</b>					
				-	-
<b>Noncontrolling interests with redemption features</b>					
				1,007	536
<b>Equity</b>					
	U.S. Cellular shareholders' equity				
		Series A Common and Common Shares			
		Authorized 190,000 shares (50,000 Series A Common and 140,000 Common Shares)			
		Issued 88,074 shares (33,006 Series A Common and 55,068 Common Shares)			
		Outstanding 84,150 shares (33,006 Series A Common and 51,144 Common Shares) and 84,205 shares (33,006 Series A Common and 51,199 Common Shares), respectively			
		Par Value (\$1 per share) (\$33,006 Series A Common and \$55,068 Common Shares)		88,074	88,074
		Additional paid-in capital		1,468,781	1,424,729
		Treasury shares, at cost, 3,924 and 3,869 Common Shares, respectively		(167,061)	(164,692)

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		Retained earnings		1,933,641			2,043,095
		Total U.S. Cellular shareholders' equity		3,323,435			3,391,206
		Noncontrolling interests		14,136			18,391
		Total equity		3,337,571			3,409,597
		<b>Total liabilities and equity</b>		<b>\$ 6,257,075</b>		<b>\$</b>	<b>6,445,708</b>
The accompanying notes are an integral part of these consolidated financial statements.							

Table of Contents

United States Cellular Corporation										
Consolidated Statement of Changes in Equity										
(Unaudited)										
U.S. Cellular Shareholders										
(Dollars in thousands)	Series A Common and Common Shares	Additional Paid-In Capital	Treasury Shares	Retained Earnings	Total U.S. Cellular Shareholders Equity	Noncontrolling Interests	Total Equity			
Balance, December 31, 2013	\$ 88,074	\$ 1,424,729	\$ (164,692)	\$ 2,043,095	\$ 3,391,206	\$ 18,391	\$ 3,409,597			
Add (Deduct)										
Net income attributable to U.S. Cellular shareholders	-	-	-	(21,472)	(21,472)	-	(21,472)			
Net income (loss) attributable to noncontrolling interests classified as equity	-	-	-	-	-	(3,738)	(3,738)			
Repurchase of Common Shares	-	-	(15,124)	-	(15,124)	-	(15,124)			
Incentive and compensation plans	-	-	12,755	(11,715)	1,040	-	1,040			
Stock-based compensation awards	-	15,474	-	-	15,474	-	15,474			

Tax windfall (shortfall) from stock awards	-	(563)	-	-	(563)	-	(563)
Distributions to noncontrolling interests	-	-	-	-	-	(517)	(517)
Acquisition of licenses in common control transaction	-	29,141	-	(76,267)	(47,126)	-	(47,126)
<b>Balance, September 30, 2014</b>	<b>\$ 88,074</b>	<b>\$ 1,468,781</b>	<b>\$ (167,061)</b>	<b>\$ 1,933,641</b>	<b>\$ 3,323,435</b>	<b>\$ 14,136</b>	<b>\$ 3,337,571</b>
The accompanying notes are an integral part of these consolidated financial statements.							

Table of Contents

United States Cellular Corporation									
Consolidated Statement of Changes in Equity									
(Unaudited)									
U.S. Cellular Shareholders									
(Dollars in thousands)	Series A Common and Common Shares	Additional Paid-In Capital	Treasury Shares	Retained Earnings	Total U.S. Cellular Shareholders' Equity	Noncontrolling Interests	Total Equity		
Balance, December 31, 2012	\$ 88,074	\$ 1,412,453	\$ (165,724)	\$ 2,399,052	\$ 3,733,855	\$ 61,392	\$ 3,795,247		
Add (Deduct)									
Net income attributable to U.S. Cellular shareholders	-	-	-	138,446	138,446	-	138,446		
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	6,292	6,292		
Common and Series A Common Shares dividends	-	-	-	(482,270)	(482,270)		(482,270)		
Repurchase of Common Shares	-	-	(18,544)	-	(18,544)	-	(18,544)		
Incentive and compensation plans	-	222	15,814	(12,974)	3,062	-	3,062		



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Stock-based compensation awards	-	11,143	-	-	11,143	-	11,143
Tax windfall (shortfall) from stock awards	-	(2,526)	-	-	(2,526)	-	(2,526)
Distributions to noncontrolling interests	-	-	-	-	-	(3,447)	(3,447)
Adjust investment in subsidiaries for noncontrolling interest purchases	-	(31)	-	-	(31)	-	(31)
Deconsolidation of partnerships	-	-	-	-	-	(43,770)	(43,770)
<b>Balance, September 30, 2013</b>	<b>\$ 88,074</b>	<b>\$ 1,421,261</b>	<b>\$ (168,454)</b>	<b>\$ 2,042,254</b>	<b>\$ 3,383,135</b>	<b>\$ 20,467</b>	<b>\$ 3,403,602</b>

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

Table of Contents

**United States Cellular Corporation**

**Notes to Consolidated Financial Statements**

**1. Basis of Presentation**

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

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

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

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items, unless otherwise disclosed) necessary for a fair statement of the financial position as of September 30, 2014 and December 31, 2013, the results of operations for the three and nine months ended September 30, 2014 and 2013, and cash flows and changes in equity for the nine months ended September 30, 2014 and 2013. The Consolidated Statement of Comprehensive Income was not included because comprehensive income for the three and nine months ended September 30, 2014 and 2013 equaled net income. These results are not necessarily indicative of the results to be expected for the full year.

Recently Issued Accounting Pronouncements

On April 10, 2014, the FASB issued Accounting Standards Update 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (“ASU 2014-08”). ASU 2014-08 changes the requirements and disclosures for reporting discontinued operations. U.S. Cellular is required to adopt the provisions of ASU 2014-08 effective January 1, 2015, but early adoption is permitted. U.S. Cellular adopted the provisions of ASU 2014-08 upon its issuance. The adoption of ASU 2014-08 did not have a significant impact on U.S. Cellular’s 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. U.S. Cellular is required to adopt the provisions of ASU 2014-09 effective January 1, 2017. Early adoption is prohibited. U.S. Cellular is evaluating what effects the adoption of ASU 2014-09 will have on U.S. Cellular’s 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. U.S. Cellular is required to adopt the provisions of ASU 2014-15 effective January 1, 2017, but early adoption is permitted. The adoption of ASU 2014-15 is not expected to impact U.S. Cellular’s financial position or results of operations.

## Table of Contents

### Equipment Installment Plans

U.S. Cellular offers customers the option to purchase certain devices under installment contracts over a period of up to 24 months. 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 guarantee liability, if applicable. For certain 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 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. U.S. Cellular 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, the customer's estimated remaining installment contract balance at the time of trade-in and the fair value of the device being traded-in at the time of trade-in. As of September 30, 2014, the short-term guarantee liability and imputed interest liability related to equipment installment plans of \$42.2 million is recorded in Customer deposits and deferred revenues in the Consolidated Balance Sheet and the long-term imputed interest liability related to equipment installment plans of \$2.4 million is recorded in Other deferred liabilities and credits in the Consolidated Balance Sheet. As of September 30, 2014, unbilled short-term equipment installment plan receivables of \$68.6 million are included in Accounts receivable – customers and agents in the Consolidated Balance Sheet and unbilled long-term equipment installment plan receivables of \$60.0 million are included in Other assets and deferred charges in the Consolidated Balance Sheet.

U.S. Cellular equipment installment plans do not provide for explicit interest charges. For equipment installment plans with a duration of twelve months or less, U.S. Cellular does not impute interest. For equipment installment plans with a duration of greater than twelve months, U.S. Cellular imputes interest and recognizes such interest income over the duration of the plan as a component of Interest and dividend income.

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

If a tax is assessed upon the customer and U.S. Cellular merely acts as an agent in collecting the tax on behalf of the imposing governmental authority, then amounts collected from customers and remitted to governmental authorities are recorded on a net basis within a tax liability account in the Consolidated Balance Sheet. If the tax is assessed upon U.S. Cellular, then amounts collected from customers as recovery of the tax are recorded in Service revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled \$23.1 million and \$74.8 million for the three and nine months ended September 30, 2014, respectively, and \$27.4 million and \$87.6 million for the three and nine months ended September 30, 2013, respectively.

## **2. Fair Value Measurements**

As of September 30, 2014 and December 31, 2013, U.S. Cellular did not have any financial or nonfinancial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP. However, U.S. Cellular has applied the provisions of fair value accounting for purposes of computing the fair value of financial instruments for disclosure purposes as displayed below.

		<b>Level within</b>	<b>September 30, 2014</b>			<b>December 31, 2013</b>
		<b>the Fair Value</b>	<b>Book Value</b>			
		<b>Hierarchy</b>				