UNITED STATES CELLULAR CORP
Form ARS
April 09, 2019

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UNITED STATES CELLULAR CORPORATION

ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2018
Pursuant to SEC Rule 14a-3

The following audited financial statements and certain other financial information for the year ended December 31, 2018, represent U.S. Cellular's 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 22, 2019, as Exhibit 13 to U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2018. 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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United States Cellular Corporation and Subsidiaries — Exhibit 13

FINANCIAL REPORTS CONTENTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE OVERVIEW

The following Management's Discussion and Analysis (MD&A) should be read in conjunction with the audited consolidated financial statements and notes of United States Cellular Corporation (U.S. Cellular) for the year ended December 31, 2018, and with the description of U.S. Cellular's business included herein. Certain numbers included herein are rounded to millions for ease of presentation; however, certain calculated amounts and percentages are determined using the unrounded numbers.

This report contains statements that are not based on historical facts, including the words "believes," "anticipates," "estimates," "expects," "plans," "intends," "projects" and similar expressions. 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. See Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement for additional information.

U.S. Cellular uses certain "non-GAAP financial measures" and each such measure is identified in the MD&A. A discussion of the reason U.S. Cellular determines these metrics to be useful and a reconciliation of these measures to their most directly comparable measures determined in accordance with accounting principles generally accepted in the United States of America (GAAP) are included in the Supplemental Information Relating to Non-GAAP Financial Measures section within the MD&A of this Form 10-K Report.

General

U.S. Cellular owns, operates, and invests in wireless markets throughout the United States. U.S. Cellular is an 82%-owned subsidiary of Telephone and Data Systems, Inc. (TDS). U.S. Cellular's strategy is to attract and retain wireless customers through a value proposition comprised of a high-quality network, outstanding customer service, and competitive devices, plans, and pricing, all provided with a local focus.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OPERATIONS

- Serves customers with 5.0 million connections including 4.5 million postpaid, 0.5 million prepaid and 0.1 million reseller and other connections
- Operates in 22 states
- Employs approximately 5,600 associates
- 6,531 cell sites including 4,129 owned towers in service

Financial and Operational Highlights

The following is a summary of certain selected information contained in the comprehensive MD&A that follows. The overview does not contain all of the information that may be important. You should carefully read the entire MD&A and not rely solely on the highlights.

§ Net income attributable to U.S. Cellular shareholders was $150 million in 2018, compared to $12 million in 2017. Diluted earnings per share was $1.72 in 2018 compared to $0.14 a year ago.

§ Total additions to Property, plant and equipment were $515 million, including expenditures to (i) enhance and maintain U.S. Cellular's network coverage, including continuing to deploy VoLTE technology in certain markets and providing additional capacity to accommodate increased data usage, by current customers; and (ii) invest in information technology to support existing and new services and products.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Trends and Developments

U.S. Cellular's mission is to provide exceptional wireless communication services which enhance consumers' lives, increase the competitiveness of local businesses, and improve the efficiency of government operations in the mid-sized and rural markets served.

Network and Technology:

§ U.S. Cellular continues to devote efforts to enhance its network capabilities. VoLTE technology has been launched successfully in California, Iowa, Oregon, Washington and Wisconsin, and deployments in several additional operating markets will occur in 2019. VoLTE technology allows customers to utilize a 4G LTE network for both voice and data services, and offers enhanced services such as high definition voice and simultaneous voice and data sessions. In addition, the deployment of VoLTE technology expands U.S. Cellular's ability to offer roaming services to other wireless carriers.

§ 5G technology is expected to help address customers' growing demand for data services as well as create opportunities for new services requiring high speed and reliability as well as low latency. U.S. Cellular is committed to continuous technology innovation and continues to prepare for deployment of 5G technology beginning in 2019, including commencing a trial utilizing 5G standards and equipment on its core LTE network in the fourth quarter of 2018. U.S. Cellular is partnering with leading companies in the wireless infrastructure and handset ecosystem to provide rich 5G experiences for customers. In addition, in the markets where U.S. Cellular commercially deploys 5G technology, which will include cities and towns large and small, customers using U.S. Cellular's 4G LTE network will experience increased network speed due to U.S. Cellular's modernization efforts.

Asset Management:

§ U.S. Cellular assesses its existing wireless interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on capital. As part of this strategy, U.S. Cellular actively seeks attractive opportunities to acquire wireless spectrum, including pursuant to FCC auctions. In 2018, U.S. Cellular acquired $26 million of spectrum licenses through purchase and exchange transactions and divested $12 million of spectrum licenses covering non-strategic areas through sale and exchange transactions. In October 2018, the FCC announced that U.S. Cellular was a qualified bidder for Auction 101, which covered spectrum licenses that are expected to be used primarily to deliver 5G technology. Auction 101 closed on January 24, 2019 but the results of the auction have not yet been announced.

Services and Products:

§ U.S. Cellular's customers are able to choose from a variety of national plans with voice, messaging and data usage options and pricing that are designed to fit different customer needs, usage patterns and budgets. In 2018, U.S. Cellular introduced the Unlimited with Payback plan that provides a monthly bill credit to postpaid customers if they have used less than 3 gigabytes of data per line.

§ U.S. Cellular offers a comprehensive range of wireless devices such as handsets, tablets, modems, and hotspots. In addition, U.S. Cellular also offers a wide range of accessories, including wireless basics such as cases, screen protectors, chargers, and memory cards as well as an assortment of consumer electronics such as headphones, smart speakers, wearables and home automation products (e.g. cameras, sensors, and thermostats). U.S. Cellular offers certain of these products for purchase on installment plans, which allow new and existing postpaid customers to purchase these products payable over a specified time period.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

TERMS USED BY U.S. CELLULAR

The following is a list of definitions of certain industry terms that are used throughout this document:

§ **4G LTE** fourth generation Long-Term Evolution, which is a wireless technology that enables more network capacity for more data per user as well as faster access to data compared to third generation (3G) technology.

§ **5G** fifth generation wireless technology that is expected to help address customers' growing demand for data services as well as create opportunities for new services requiring high speed and reliability as well as low latency.

§ **Account** represents an individual or business financially responsible for one or multiple associated connections. An account may include a variety of types of connections such as handsets and connected devices.

§ **ASU 2014-09** the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, including any subsequent modifications to such guidance. This ASU replaces existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers.

§ **Auctions 101 and 102** Auction 101 is an FCC auction of 28 GHz spectrum licenses that started in November 2018 and concluded in January 2019. Auction 102 is an FCC auction of 24 GHz spectrum licenses that is expected to start in early 2019. The spectrum auctioned in each of these auctions, referred to as Millimeter Wave spectrum, is expected to be used primarily to deliver 5G technology.

§ **Auctions 1000, 1001, and 1002** Auction 1000 is an FCC auction of 600 MHz spectrum licenses that started in 2016 and concluded in 2017 involving: (1) a "reverse auction" in which broadcast television licensees submitted bids to voluntarily relinquish spectrum usage rights in exchange for payments (referred to as Auction 1001); (2) a "repacking" of the broadcast television bands in order to free up certain broadcast spectrum for other uses; and (3) a "forward auction" of licenses for spectrum cleared through this process to be used for wireless communications (referred to as Auction 1002).

§ **Churn Rate** represents the percentage of the connections that disconnect service each month. These rates represent the average monthly churn rate for each respective period.

§

Connections individual lines of service associated with each device activated by a customer. Connections are associated with all types of devices that connect directly to the U.S. Cellular network.

§

Connected Devices non-handset devices that connect directly to the U.S. Cellular network. Connected devices include products such as tablets, wearables, modems, and hotspots.

§

EBITDA refers to earnings before interest, taxes, depreciation, amortization and accretion and is used in the non-GAAP metric Adjusted EBITDA throughout this document. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.

§

Eligible Telecommunications Carrier (ETC) designation by states for providing specified services in "high cost" areas which enables participation in universal service support mechanisms.

§

Free Cash Flow non-GAAP metric defined as Cash flows from operating activities less Cash paid for additions to property, plant and equipment. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.

§

Gross Additions represents the total number of new connections added during the period, without regard to connections that were terminated during that period.

§

Net Additions represents the total number of new connections added during the period, net of connections that were terminated during that period.

§

OIBDA refers to operating income before depreciation, amortization and accretion and is used in the non-GAAP metric Adjusted OIBDA throughout this document. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.

§

Partial Economic Areas service areas of certain FCC licenses based on geography.

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§

Postpaid Average Billings per Account (Postpaid ABPA) non-GAAP metric which is calculated by dividing total postpaid service revenues plus equipment installment plan billings by the average number of postpaid accounts and by the number of months in the period. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.

§

Postpaid Average Billings per User (Postpaid ABPU) non-GAAP metric which is calculated by dividing total postpaid service revenues plus equipment installment plan billings by the average number of postpaid connections and by the number of months in the period. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.

§

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

§

Postpaid Average Revenue per User (Postpaid ARPU) metric which is calculated by dividing total postpaid service revenues by the average number of postpaid connections and by the number of months in the period.

§

Retail Connections the sum of postpaid connections and prepaid connections.

§

Tax Act refers to comprehensive federal tax legislation enacted on December 22, 2017, which made broad changes to the U.S. tax code. Now titled H.R.1, the Tax Act was originally identified as the Tax Cuts and Jobs Act of 2017.

§

Universal Service Fund (USF) a system of telecommunications collected fees and support payments managed by the FCC intended to promote universal access to telecommunications services in the United States.

§

VoLTE Voice over Long-Term Evolution is a technology specification that defines the standards and procedures for delivering voice communications and related services over 4G LTE networks.

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OPERATIONAL OVERVIEW

Retail Connections Composition
As of December 31, 2018

Year Ended December 31,	**2018**	2017	2016
Postpaid Activity and Churn			
Gross Additions			
Handsets	**475,000**	490,000	479,000
Connected Devices	**150,000**	198,000	294,000
Total Gross Additions	**625,000**	688,000	773,000

Net Additions (Losses)

Handsets	**23,000**	38,000	(70,000)
Connected Devices	**(69,000)**	(2,000)	143,000
Total Net Additions (Losses)	**(46,000)**	36,000	73,000

Churn			
Handsets	**0.98%**	0.99%	1.18%
Connected Devices	**2.96%**	2.52%	2.11%
Total Churn	**1.25%**	1.21%	1.31%

2018-2017 Commentary

Postpaid net additions decreased in 2018 due primarily to lower gross additions, as well as an increase in tablet churn. The decrease in connected devices gross additions reflects U.S. Cellular's decision to discontinue promotions of heavily discounted tablets in 2018.

2017-2016 Commentary

Postpaid net additions decreased in 2017 mainly due to lower connected devices net additions which reflected both lower tablet gross additions and an increase in tablet churn. The decline in tablet gross additions reflects industry-wide trends including (i) reduced consumer demand for network-connected tablets, and (ii) carriers including U.S. Cellular have curtailed promotions of heavily discounted tablets designed to stimulate demand due to poor economics. The decrease in connected devices net additions was partially offset by an improvement in handsets net additions driven by both higher gross additions and a decrease in churn.

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Postpaid Revenue

Year Ended December 31,		2018		2017		2016
Average Revenue Per User (ARPU)	**$**	**44.98**	$	44.38	$	46.96
Average Billings Per User (ABPU)[1]	**$**	**58.67**	$	55.60	$	56.12
Average Revenue Per Account (ARPA)	$	**118.93**	$	118.96	$	124.09
Average Billings Per Account (ABPA)[1]	**$**	**155.11**	$	149.02	$	148.29

1 Postpaid ABPU and Postpaid ABPA are non-GAAP financial measures. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of these measures.

2018-2017 Commentary

On January 1, 2018, U.S Cellular adopted the provisions of ASU 2014-09, using a modified retrospective method. Under this method, the new accounting standard is applied only to the most recent period presented, recognizing the cumulative effect of the accounting change as an adjustment to retained earnings at January 1, 2018. See Note 2 Revenue Recognition in the Notes to Consolidated Financial Statements for additional details.

Postpaid ARPU increased in 2018 due primarily to several factors including: increases in device protection plan and regulatory recovery revenues as well as having proportionately more handset connections, which on a per-unit basis contribute more revenue than tablet connections. Such factors were partially offset by the impact of adopting the provisions of ASU 2014-09, as well as the impact of overall price reductions on plan offerings. Postpaid ARPA decreased slightly in 2018 due primarily to a decrease in postpaid connections per account driven by higher tablet churn. Application of the new accounting standard had the impact of reducing ARPU and ARPA by $0.21 and $0.55, respectively.

Under equipment installment plans, customers pay for their wireless devices in installments over a period of time. In order to show the trend in estimated cash collections from postpaid customer billings for service and equipment, U.S. Cellular has presented Postpaid ABPU and Postpaid ABPA, which are calculated as Postpaid ARPU and Postpaid ARPA plus average monthly installment plan billings per connection and account, respectively.

Postpaid ABPU and ABPA increased in 2018 due primarily to (i) an increase in equipment installment plan billings driven by increased penetration of equipment installment plans and (ii) a higher average price per device sold.

2017-2016 Commentary

Postpaid ARPU and Postpaid ARPA decreased in 2017 due primarily to industry-wide price competition resulting in overall price reductions on plan offerings.

Equipment installment plan billings increased in 2017 due to increased penetration of equipment installment plans. Postpaid ABPU decreased in 2017 as the increase in equipment installment plan billings was more than offset by the decline in Postpaid ARPU discussed above. Postpaid ABPA, however, increased slightly in 2017 as the increase in equipment installment plan billings more than offset the decline in Postpaid ARPA discussed above.

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FINANCIAL OVERVIEW

Year Ended December 31,	**20181**	2017	2016	**2018 vs. 2017**	2017 vs. 2016
(Dollars in millions)					
Retail service	**$ 2,623**	$ 2,589	$ 2,700	**1%**	(4)%
Inbound roaming	**154**	129	152	**20%**	(15)%
Other	**201**	260	229	**(23)%**	13%
Service revenues	**2,978**	2,978	3,081		(3)%
Equipment sales	**989**	912	909	**8%**	
Total operating revenues	**3,967**	3,890	3,990	**2%**	(3)%
System operations (excluding Depreciation, amortization and accretion reported below)	**758**	732	760	**4%**	(4)%
Cost of equipment sold	**1,031**	1,071	1,081	**(4)%**	(1)%
Selling, general and administrative	**1,388**	1,412	1,480	**(2)%**	(4)%
Depreciation, amortization and accretion	**640**	615	618	**4%**	
Loss on impairment of goodwill		370		**N/M**	N/M
(Gain) loss on asset disposals, net	**10**	17	22	**(40)%**	(22)%
(Gain) loss on sale of business and other exit costs, net		(1)		**N/M**	N/M
(Gain) loss on license sales and exchanges, net	**(18)**	(22)	(19)	**20%**	(17)%
Total operating expenses	**3,809**	4,194	3,942	**(9)%**	6%
Operating income (loss)	**$ 158**	$ (304)	$ 48	**N/M**	N/M

Net income	**$**	**164**	$	15	$	49	**N/M**	(70)%
Adjusted OIBDA (Non-GAAP)2	**$**	**790**	$	675	$	669	**17%**	1%
Adjusted EBITDA (Non-GAAP)2	**$**	**963**	$	820	$	816	**17%**	1%
Capital expenditures	**$**	**515**	$	469	$	446	**10%**	5%

N/M Percentage change not meaningful

1 As of January 1, 2018, U.S. Cellular adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new accounting standard is applied only to the most recent period presented. See Note 2 Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

2 Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

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Operating Revenues
(Dollars in millions)

Service revenues consist of:

§

Retail Service   Charges for access, airtime, recovery of regulatory costs and value added services, including data services and products

§

Inbound Roaming   Charges to other wireless carriers whose customers use U.S. Cellular's wireless systems when roaming

§

Other Service   Amounts received from the Federal USF and tower rental revenues. Imputed interest on equipment installment plan contracts is included in 2017; however, it is not included in 2018 due to the impact of adopting the provisions of ASU 2014-09

Equipment revenues consist of:

§

Sales of wireless devices and related accessories to new and existing customers, agents, and third-party distributors

Key components of changes in the statement of operations line items were as follows:

2018-2017 Commentary

Total operating revenues

Retail service revenues increased in 2018 primarily as a result of the changes in Postpaid ARPU as previously discussed in the Operational Overview section.

Inbound roaming revenues increased in 2018 primarily driven by data traffic, with significantly higher usage partially offset by lower rates.

Other service revenues decreased year over year, reflecting the exclusion of imputed interest income in 2018 due to the impact of adopting the provisions of ASU 2014-09. The impact of imputed interest income was $73 million in 2017. Federal USF revenues remained flat year over year at $92 million. See the Regulatory Matters section in this MD&A for a description of the Phase II Connect America Mobility Fund (MF2 Order) and its expected impacts on U.S. Cellular's Federal USF support.

Equipment sales revenues increased in 2018 due primarily to the impact of adopting the provisions of ASU 2014-09 and an increase in the average revenue per device sold. Such factors were partially offset by a decrease in the number of devices sold.

See Note 2 Revenue Recognition in the Notes to Consolidated Financial Statements for additional details on the financial statement impact of ASU 2014-09.

System operations expenses

System operations expenses increased in 2018 due primarily to higher maintenance, utility and cell site rent expenses largely reflecting the growth in cell sites and other network facilities as U.S. Cellular continues to add capacity, enhance quality, and deploy new technologies.

Cost of equipment sold

Cost of equipment sold decreased in 2018 due primarily to a decrease in the number of devices sold, partially offset by an increase due to a higher average cost per device sold. Loss on equipment, defined as Equipment sales revenues less Cost of equipment sold, was $42 million and $159 million for 2018 and 2017, respectively.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased in 2018 due primarily to lower sales commissions.

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Depreciation, amortization and accretion

Depreciation, amortization, and accretion increased in 2018 due to additional network assets being placed into service as well as an increase in amortization expense related to billing system upgrades.

(Gain) loss on asset disposals, net

Loss on asset disposals, net decreased primarily as a result of fewer disposals of certain network assets.

(Gain) loss on license sales and exchanges, net

Net gains in 2018 and 2017 were due to gains recognized on license sale and exchange transactions with various third parties.

2017-2016 Commentary

Total operating revenues

Service revenues decreased as a result of (i) a decrease in retail service revenues driven by industry-wide price competition resulting in overall price reductions on plan offerings; and (ii) a decrease in inbound roaming revenue mainly due to lower roaming rates. Such reductions were partially offset by an increase in imputed interest income due to an increase in the total number of active equipment installment plans.

Federal USF revenue remained flat year over year at $92 million. See the Regulatory Matters section in this MD&A for a description of the FCC Mobility Fund Phase II Order (MF2 Order) and its expected impacts on U.S. Cellular's current Federal USF support.

Equipment sales revenues increased by a modest amount year over year reflecting an increase in average revenue per device sold, a mix shift to higher end smartphone devices and, to a lesser extent, an increase in accessories revenues. Such increases were almost entirely offset by a decrease in the number of devices sold, a reduction in guarantee liability amortization for equipment installment contracts as a result of changes in plan offerings, and lower device activation fees.

System operations expenses

System operations expenses decreased in 2017 as a result of (i) a decrease in customer usage expenses driven mainly by decreased circuit costs; and (ii) a decrease in roaming expenses driven primarily by lower roaming rates, partially offset by increased data roaming usage.

Cost of equipment sold

Cost of equipment sold decreased mainly due to a reduction in the number of devices sold partially offset by a mix shift from feature phones and connected devices to higher cost smartphones. Loss on equipment was $159 million and $172 million for 2017 and 2016, respectively.

Selling, general and administrative expenses

Selling expenses decreased by $26 million due to lower advertising expenses, including a decrease in sponsorship expenses related to the termination of a naming rights agreement in 2016. Such reductions were partially offset by an increase in commissions expenses.

General and administrative expenses decreased by $42 million mainly due to lower expenses for bad debts and phone programs, along with reductions in numerous other general and administrative expense categories.

Loss on impairment of goodwill

In 2017, U.S. Cellular recorded a $370 million loss on impairment related to goodwill. See Note 7 Intangible Assets in the Notes to Consolidated Financial Statements for additional information.

(Gain) loss on asset disposals, net

Loss on asset disposals, net decreased primarily as a result of fewer disposals of certain network assets.

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(Gain) loss on license sales and exchanges, net

The net gains in 2017 and 2016 were due to license exchange transactions with third parties.

Components of Other Income (Expense)

Year Ended December 31,	**2018**	2017	2016	**2018 vs. 2017**	2017 vs. 2016
(Dollars in millions)					
Operating income (loss)	**$ 158**	$ (304)	$ 48	**N/M**	N/M
Equity in earnings of unconsolidated entities	**159**	137	140	**16%**	(2)%
Interest and dividend income	**15**	8	6	**83%**	40%
Interest expense	**(116)**	(113)	(113)	**(3)%**	
Other, net	**(1)**		1	**N/M**	(19)%
Total investment and other income	**57**	32	34	**76%**	(1)%
Income (loss) before income taxes	**215**	(272)	82	**N/M**	N/M
Income tax expense (benefit)	**51**	(287)	33	**N/M**	N/M
Net income	**164**	15	49	**N/M**	(70)%
Less: Net income attributable to noncontrolling interests, net of tax	**14**	3	1	**N/M**	56%
Net income attributable to U.S. Cellular shareholders	**$ 150**	$ 12	$ 48	**N/M**	(74)%

N/M Percentage change not meaningful

2018-2017 Commentary

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents U.S. Cellular's share of net income from entities in which it has a noncontrolling interest and that are accounted for using the equity method. U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership (LA Partnership) contributed $77 million and $66 million in earnings of unconsolidated entities in 2018 and 2017, respectively. See Note 8 Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

Interest and dividend income

Interest and dividend income increased as a result of an increase in the money market investments balance, classified within Cash and cash equivalents, in 2018.

Income tax expense (benefit)

The effective tax rate on Income before income taxes for 2018 was 23.7%, which is consistent with a normalized tax rate inclusive of federal and state tax.

The overall effective tax rate for 2017 was not meaningful due to the effect of the Tax Act combined with the tax impact of the impairment of goodwill, since portions of the goodwill balance are not amortizable for income tax purposes.

See Note 5 Income Taxes in the Notes to Consolidated Financial Statements for additional information.

Net income attributable to noncontrolling interests, net of tax

Net income attributable to noncontrolling interests, net of tax increased in 2018, due primarily to an out-of-period adjustment recorded in the first quarter of 2018. U.S. Cellular determined that this adjustment was not material to any of the periods impacted. See Note 13 Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

2017-2016 Commentary

Equity in earnings of unconsolidated entities

U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership (LA Partnership) contributed $66 million and $71 million to Equity in earnings of unconsolidated entities in 2017 and 2016, respectively. See Note 8 Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

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Income tax expense (benefit)

The overall effective tax rate for 2017 is not meaningful due to the effect of the Tax Act combined with the impaired goodwill, since portions of the goodwill balance are not amortizable for income tax purposes. U.S. Cellular's effective tax rate on Income before taxes for 2016 was 39.7% and was consistent with a normalized tax rate inclusive of federal and state tax note that the federal statutory rate prior to the Tax Act was 35%.

See Note 5 Income Taxes in the Notes to Consolidated Financial Statements for additional information.

Net income attributable to noncontrolling interests, net of tax

The increase year over year is due to higher income from certain partnerships in 2017.