

TELEPHONE & DATA SYSTEMS INC /DE/
 Form 10-Q
 November 01, 2013

UNITED STATES																	
SECURITIES AND EXCHANGE COMMISSION																	
Washington, D.C. 20549																	
FORM 10-Q																	
(Mark One)																	
<input checked="" type="checkbox"/>	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934																
For the quarterly period ended September 30, 2013																	
OR																	
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934																	
For the transition period from _____ to _____																	
Commission file number 001-14157																	
TELEPHONE AND DATA SYSTEMS, INC.																	
(Exact name of Registrant as specified in its charter)																	
Delaware									36-2669023								
(State or other jurisdiction of incorporation or organization)									(IRS Employer Identification No.)								
<u>30 North LaSalle Street, Suite 4000, Chicago, Illinois 60602</u>																	
(Address of principal executive offices) (Zip code)																	
Registrant's telephone number, including area code: (312) 630-1900																	
Indicate by check mark																Yes	No
• 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.																x	

Telephone and Data Systems, Inc.				
Quarterly Report on Form 10-Q				
For the Quarterly Period Ended September 30, 2013				
<u>Index</u>				
Part I.	<u>Financial Information</u>			<u>Page No.</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, 2013 and 2012</u>		
		<u>Consolidated Statement of Comprehensive Income</u>		<u>2</u>
		<u>Three and Nine Months Ended September 30, 2013 and 2012</u>		
		<u>Consolidated Statement of Cash Flows</u>		<u>3</u>
		<u>Nine Months Ended September 30, 2013 and 2012</u>		
		<u>Consolidated Balance Sheet</u>		<u>4</u>
		<u>September 30, 2013 and December 31, 2012</u>		
		<u>Consolidated Statement of Changes in Equity</u>		<u>6</u>
		<u>Nine Months Ended September 30, 2013 and 2012</u>		
		<u>Notes to Consolidated Financial Statements</u>		<u>8</u>
	<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>		<u>27</u>
		<u>Overview</u>		<u>27</u>
		<u>2013 Estimates</u>		<u>31</u>
		<u>Nine Months Ended September 30, 2013 and 2012</u>		
		<u>Results of Operations — Consolidated</u>		<u>35</u>
		<u>Results of Operations — U.S. Cellular</u>		<u>37</u>
		<u>Results of Operations — TDS Telecom</u>		<u>42</u>

		<u>Three Months Ended September 30, 2013 and 2012</u>	
			<u>Results of Operations — Consolidated</u> 47
			<u>Results of Operations — U.S. Cellular</u> 49
			<u>Results of Operations — TDS Telecom</u> 51
		<u>Recent Accounting Pronouncements</u> 53	
		<u>Financial Resources</u> 53	
		<u>Liquidity and Capital Resources</u> 55	
		<u>Application of Critical Accounting Policies and Estimates</u> 58	
		<u>Safe Harbor Cautionary Statement</u> 62	
	<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 65	
	<u>Item 4.</u>	<u>Controls and Procedures</u> 66	
<u>Part II.</u>	<u>Other Information</u>		
	<u>Item 1.</u>	<u>Legal Proceedings</u> 67	
	<u>Item 1A.</u>	<u>Risk Factors</u> 67	
	<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 67	
	<u>Item 5.</u>	<u>Other Information</u> 69	
	<u>Item 6.</u>	<u>Exhibits</u> 70	
<u>Signatures</u>			

	Interest expense		(24,961)		(20,497)		(73,208)		(68,100)
	Other, net		145		217		(206)		196
	Total investment and other income (expense)		15,300		7,094		48,092		9,058
	Income (loss) before income taxes		(17,785)		62,600		304,388		249,282
	Income tax expense (benefit)		(6,731)		22,442		130,056		85,619
	Net income (loss)		(11,054)		40,158		174,332		163,663
	Less: Net income (loss) attributable to noncontrolling interests, net of tax		(1,542)		11,041		26,348		39,955
	Net income (loss) attributable to TDS shareholders		(9,512)		29,117		147,984		123,708
	TDS Preferred dividend requirement		(12)		(12)		(37)		(37)
	Net income (loss) available to common shareholders	\$	(9,524)	\$	29,105	\$	147,947	\$	123,671
	Basic weighted average shares outstanding		108,571		108,819		108,405		108,735
	Basic earnings (loss) per share attributable to TDS shareholders	\$	(0.09)	\$	0.27	\$	1.36	\$	1.14
	Diluted weighted average shares outstanding		108,571		109,246		108,993		109,018
	Diluted earnings (loss) per share attributable to TDS shareholders	\$	(0.09)	\$	0.26	\$	1.35	\$	1.13
	Dividends per share to TDS shareholders	\$	0.1275	\$	0.1225	\$	0.3825	\$	0.3675
The accompanying notes are an integral part of these consolidated financial statements.									

Table of Contents

Telephone and Data Systems, Inc.												
<u>Consolidated Statement of Comprehensive Income</u>												
(Unaudited)												
					Three Months Ended							
					September 30,							
(Dollars in thousands)					2013		2012		2013			
					2012		2013		2012			
Net income (loss)					\$	(11,054)	\$	40,158	\$	174,332	\$	163,663
Net change in accumulated other comprehensive income (loss)												
Change in net unrealized gain (loss) on equity investments					-	-	-	-	51	49		
Change in foreign currency translation adjustment					(34)	-	-	-	(19)	-		
Change related to retirement plan												
Amounts included in net periodic benefit cost for the period												
Amortization of prior service cost					(900)	(934)	(934)	(934)	(2,703)	(2,802)		
Amortization of unrecognized net loss					602	623	623	623	1,806	1,869		
					(298)	(311)	(311)	(311)	(897)	(933)		
Change in deferred income taxes					114	462	462	462	341	1,395		
Change related to retirement plan, net of tax					(184)	151	151	151	(556)	462		
Net change in accumulated other comprehensive income (loss)					(218)	151	151	151	(524)	511		
Comprehensive income (loss)					(11,272)	40,309	40,309	40,309	173,808	164,174		
Less: Comprehensive income (loss) attributable to noncontrolling interest					(1,542)	11,041	11,041	11,041	26,348	39,955		
Comprehensive income (loss) attributable					\$	(9,730)	\$	29,268	\$	147,460	\$	124,219

Table of Contents

Telephone and Data Systems, Inc.						
Consolidated Statement of Cash Flows						
(Unaudited)						
				Nine Months Ended		
				September 30,		
(Dollars in thousands)				2013		2012
Cash flows from operating activities						
	Net income			\$	174,332	\$ 163,663
	Add (deduct) adjustments to reconcile net income to net cash flows from operating activities					
			Depreciation, amortization and accretion	751,575		592,162
			Bad debts expense	56,693		56,597
			Stock-based compensation expense	21,867		31,724
			Deferred income taxes, net	(30,748)		52,169
			Equity in earnings of unconsolidated entities	(100,303)		(73,796)
			Distributions from unconsolidated entities	51,879		45,558
			Loss on impairment of assets	-		515
			Loss on asset disposals, net	16,090		16,716
			(Gain) loss on sale of business and other exit costs, net	(297,637)		(4,109)
			(Gain) loss on investments	(14,518)		3,728
			Noncash interest expense	1,498		2,555
			Other operating activities	575		1,650
	Changes in assets and liabilities from operations					
			Accounts receivable	(216,700)		(69,478)
			Inventory	11,114		(70,918)
			Accounts payable	33,312		(37,728)
			Customer deposits and deferred revenues	21,883		28,323
			Accrued taxes	41,838		107,502
			Accrued interest	9,451		9,488
			Other assets and liabilities	(94,301)		(95,785)
				437,900		760,536
Cash flows from investing activities						
	Cash used for additions to property, plant and equipment			(631,370)		(730,897)
	Cash paid for acquisitions and licenses			(280,383)		(97,523)
	Cash received from divestitures			484,300		50,182
	Cash paid for investments			-		(45,000)

	Cash received for investments		80,000			143,444
	Other investing activities		13,860			(13,121)
			(333,593)			(692,915)
Cash flows from financing activities						
	Repayment of long-term debt		(1,196)			(2,435)
	Issuance of long-term debt		-			358
	TDS Common Shares and Special Common Shares reissued for benefit plans, net of tax payments		7,537			(23)
	U.S. Cellular Common Shares reissued for benefit plans, net of tax payments		2,840			(2,299)
	Repurchase of TDS Common Shares		(5,813)			-
	Repurchase of U.S. Cellular Common Shares		(18,544)			-
	Dividends paid to TDS shareholders		(41,430)			(39,930)
	U.S. Cellular dividends paid to noncontrolling public shareholders		(75,235)			-
	Payment of debt issuance costs		(23)			-
	Distributions to noncontrolling interests		(3,447)			(1,491)
	Other financing activities		1,612			4,208
			(133,699)			(41,612)
Net increase (decrease) in cash and cash equivalents			(29,392)			26,009
Cash and cash equivalents						
	Beginning of period		740,481			563,275
	End of period		\$ 711,089		\$	589,284
The accompanying notes are an integral part of these consolidated financial statements.						

Table of Contents

Telephone and Data Systems, Inc.				
<u>Consolidated Balance Sheet — Assets</u>				
<u>(Unaudited)</u>				
(Dollars in thousands)		September 30,		December 31,
		2013		2012
Current assets				
	Cash and cash equivalents	\$	711,089	\$ 740,481
	Short-term investments		45,162	115,700
	Accounts receivable			
	Due from customers and agents, less allowances of \$35,691 and \$28,152, respectively		509,785	409,720
	Other, less allowances of \$2,529 and \$5,263, respectively		177,026	164,608
	Inventory		149,489	160,692
	Net deferred income tax asset		62,479	43,411
	Prepaid expenses		94,989	86,385
	Income taxes receivable		1,909	9,625
	Other current assets		36,011	32,815
			1,787,939	1,763,437
Assets held for sale				
			78,413	163,242
Investments				
	Licenses		1,420,541	1,480,039
	Goodwill		821,155	797,194
	Franchise rights		123,668	-
	Other intangible assets, net of accumulated amortization of \$107,182 and \$143,613, respectively		59,841	58,522
	Investments in unconsolidated entities		345,411	179,921
	Long-term investments		40,099	50,305
	Other investments		689	824
			2,811,404	2,566,805
Property, plant and equipment				
	In service and under construction		11,039,077	10,808,499
	Less: Accumulated depreciation		7,157,242	6,811,233
			3,881,835	3,997,266

Other assets and deferred charges					140,109			133,150
Total assets				\$	8,699,700		\$	8,623,900
The accompanying notes are an integral part of these consolidated financial statements.								

Table of Contents

Telephone and Data Systems, Inc.				
<u>Consolidated Balance Sheet — Liabilities and Equity</u>				
<u>(Unaudited)</u>				
			September 30,	December 31,
(Dollars and shares in thousands)			2013	2012
Current liabilities				
	Current portion of long-term debt		\$ 1,806	\$ 1,233
	Accounts payable		398,867	377,291
	Customer deposits and deferred revenues		244,526	222,345
	Accrued interest		15,799	6,565
	Accrued taxes		107,183	48,237
	Accrued compensation		97,266	134,932
	Other current liabilities		142,851	134,005
			1,008,298	924,608
Liabilities held for sale				
			471	19,594
Deferred liabilities and credits				
	Net deferred income tax liability		851,396	862,580
	Other deferred liabilities and credits		445,596	438,727
Long-term debt				
			1,721,085	1,721,571
Commitments and contingencies				
			-	-
Noncontrolling interests with redemption features				
			540	493
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 132,702 shares (7,157 Series A Common and 125,545 Common Shares) and 132,672 shares (7,160 Series A Common and 125,512 Common Shares), respectively			
	Outstanding 108,491 shares (7,157 Series A Common and 101,334 Common Shares) and 108,031 shares (7,160 Series A Common and			

		100,871 Common Shares), respectively					
		Par Value (\$.01 per share) of \$1,327 (\$72 Series A Common and \$1,255 Common Shares) and \$1,327 (\$72 Series A Common and \$1,255 Common Shares), respectively			1,327		1,327
		Capital in excess of par value			2,301,983		2,304,122
		Treasury shares at cost:					
		24,211 and 24,641 Common Shares, respectively			(727,577)		(750,099)
		Accumulated other comprehensive loss			(8,656)		(8,132)
		Retained earnings			2,555,765		2,464,318
		Total TDS shareholders' equity			4,122,842		4,011,536
		Preferred shares			825		825
		Noncontrolling interests			548,647		643,966
		Total equity			4,672,314		4,656,327
		Total liabilities and equity			\$ 8,699,700		\$ 8,623,900
The accompanying notes are an integral part of these consolidated financial statements.							

Table of Contents

Telephone and Data Systems, Inc.										
<u>Consolidated Statement of Changes in Equity</u>										
<u>(Unaudited)</u>										
TDS Shareholders										
	Series A Common (Dollars and in Common thousands) Shares	Capital in Excess of Par Value	Treasury Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total TDS Shareholders' Equity	Preferred Shares	Non controlling Interests	Total Equity	
December 31, 2012	\$ 1,327	\$ 2,304,122	\$ (750,099)	\$ (8,132)	\$ 2,464,318	\$ 4,011,536	\$ 825	\$ 643,966	\$ 4,656,327	
Add (Deduct)										
Net income attributable to TDS shareholders	-	-	-	-	147,984	147,984	-	-	147,984	
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	-	-	26,301	26,301	
Net unrealized gain	-	-	-	51	-	51	-	-	51	

purchases										
Deconsolidation of partnerships	-	-	-	-	-	-	-	(43,770)	(43,770)	
September 30, 2013	\$ 1,327	\$ 2,301,983	\$ (727,577)	\$ (8,656)	\$ 2,555,765	\$ 4,122,842	\$ 825	\$ 548,647	\$ 4,672,310	

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

Table of Contents

Telephone and Data Systems, Inc.										
<u>Consolidated Statement of Changes in Equity</u>										
<u>(Unaudited)</u>										
TDS Shareholders										
	Series A Common Shares	Capital in Excess of Par Value	Treasury Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total TDS Shareholders' Equity	Preferred Shares	Non controlling Interests	Total Equity	
December 31, 2011	\$ 1,326	\$ 2,268,711	\$ (750,921)	\$ (8,854)	\$ 2,451,899	\$ 3,962,161	\$ 830	\$ 639,688	\$ 4,602,677	
Add (Deduct)										
Net income attributable to TDS shareholders	-	-	-	-	123,708	123,708	-	-	123,708	
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	-	-	39,949	39,949	
Net unrealized gain	-	-	-	49	-	49	-	-	49	

other										
compensation plans										
Stock-based compensation awards	-	15,518	-	-	-	15,518	-	-	15,518	
Tax windfall (shortfall) from stock awards	-	(108)	-	-	-	(108)	-	-	(108)	
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(1,491)	(1,491)	
Other	-	-	-	-	-	-	-	57	57	
September 30, 2012	\$ 1,326	\$ 2,293,008	\$ (739,560)	\$ (8,343)	\$ 2,528,209	\$ 4,074,640	\$ 826	\$ 687,624	\$ 4,763,090	

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

Table of Contents

Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The accounting policies of Telephone and Data Systems, Inc. (“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”). The consolidated financial statements include the accounts of TDS and its majority-owned subsidiaries, including TDS’ 84%-owned wireless telephone subsidiary, United States Cellular Corporation (“U.S. Cellular”) and TDS’ wholly-owned subsidiary, TDS Telecommunications Corporation (“TDS Telecom”). In addition, the consolidated financial statements include certain entities in which TDS 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 TDS, 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, TDS 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 TDS’ Annual Report on Form 10-K (“Form 10-K”) for the year ended December 31, 2012.

Previously, TDS had reported the following reportable segments: U.S. Cellular, TDS Telecom’s incumbent local exchange carrier (“ILEC”), its competitive local exchange carrier (“CLEC”), its Hosted and Managed Services (“HMS”) operations and the Non-Reportable Segment which includes TDS’ majority-owned printing and distribution company, Suttle-Straus, Inc. (“Suttle-Straus”) and TDS’ wholly-owned wireless telephone subsidiary, Airadigm Communications, Inc. (“Airadigm”). As a result of recent acquisitions and changes in TDS’ strategy, operations and internal reporting, TDS has reevaluated and changed its operating segments during the quarter ended September 30, 2013, which resulted in the following reportable segments: U.S. Cellular, TDS Telecom’s Wireline, Cable and HMS operations, and the Non-Reportable Segment. The Wireline segment consists of the former ILEC and CLEC segments. The Cable segment consists of Baja Broadband, LLC (“Baja”), which was acquired in August 2013. Periods presented for

comparative purposes have been re-presented to conform to the revised presentation described above. All of TDS' segments operate only in the United States, except for HMS, which includes an insignificant foreign operation.

In April 2013, TDS deconsolidated its investments in the St. Lawrence Seaway RSA Cellular Partnership ("NY1") and New York RSA 2 Cellular Partnership ("NY2") and thereafter reported them as equity method investments in its consolidated financial statements ("NY1 & NY2 Deconsolidation"). See Note 7 — Investments in Unconsolidated Entities for additional information.

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, 2013 and December 31, 2012, and the results of operations and changes in comprehensive income (loss) for the three and nine months ended September 30, 2013 and 2012 and cash flows and changes in equity for the nine months ended September 30, 2013 and 2012. These results are not necessarily indicative of the results to be expected for the full year.

Recently Issued Accounting Pronouncements

On July 18, 2013, the FASB issued Accounting Standards Update 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ("ASU 2013-11"). ASU 2013-11 addresses the presentation of an unrecognized tax benefit when a net operating loss carryforward or tax credit carryforward exists. In such event, an unrecognized tax benefit, or portion of an unrecognized tax benefit, would be presented in the Consolidated Balance Sheet as a reduction to deferred tax assets unless the net operating loss carryforward or tax credit carryforward at the reporting date is not available under the tax law of the applicable jurisdiction. TDS is required to adopt the provisions of ASU 2013-11 effective January 1, 2014. The adoption of ASU 2013-11 is not expected to have a significant impact on TDS' financial position or results of operations.

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. The impairment test for tangible long-lived assets is a two-step process. The first step compares the carrying value of the asset (or asset group) with the estimated undiscounted cash flows over the remaining asset (or asset group) life. If the carrying

Table of Contents

value of the asset (or asset group) is greater than the undiscounted cash flows, the second step of the test is performed to measure the amount of impairment loss. The second step compares the carrying value of the asset (or asset group) to its estimated fair value. If the carrying value exceeds the estimated fair value (less cost to sell), an impairment loss is recognized for the difference.

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, network operations center and wide-area network. As a result, 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 five asset groups 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 asset groups is the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities.

Quoted market prices in active markets are the best evidence of fair value of a tangible long-lived asset and are used when available. If quoted market prices are not available, the estimate of fair value is based on the best information available, including prices for similar assets and the use of other valuation techniques. A present value analysis of cash flow scenarios is often the best available valuation technique. The use of this technique involves assumptions by management about factors that are uncertain including future cash flows, the appropriate discount rate and other inputs. Different assumptions for these inputs could create materially different results.

Amounts Collected from Customers and Remitted to Governmental Authorities

If a tax is assessed upon the customer and TDS 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 TDS, then amounts collected from customers as recovery of the tax are recorded in Operating 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 \$31.6 million and \$99.0 million for the three and nine months ended September 30, 2013, respectively, and \$36.2 million and \$114.7 million for the three and nine months ended September 30, 2012, respectively.

2. Fair Value Measurements

As of September 30, 2013 and December 31, 2012, TDS did not have any financial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP. However, 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	September 30, 2013				December 31, 2012			
			Book Value		Fair Value		Book Value		Fair Value	
(Dollars in thousands)										
Cash and cash equivalents		1	\$	711,089	\$	711,089	\$	740,481	\$	740,481
Short-term investments										
	U.S. Treasury Notes	1		45,162		45,162		115,700		115,700
Long-term investments										
	U.S. Treasury Notes	1		40,099		40,154		50,305		50,339
Long-term debt										
	Retail	1		1,178,250		1,116,630		1,178,250		1,238,204
	Institutional and other	2		537,521		517,126		538,657		589,435

Short-term investments and Long-term investments are both designated as held-to-maturity investments and recorded at amortized cost in the Consolidated Balance Sheet. Long-term investment maturities range between 14 and 15 months at September 30, 2013. Long-term debt excludes capital lease obligations and the current portion of Long-term debt.

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. The fair values of Long-term investments were estimated using quoted market prices for the individual issuances. 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. TDS' institutional debt includes U.S. Cellular's 6.7% Senior Notes which are traded over the counter. TDS estimated the fair value of

Table of Contents

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 0.0% to 7.25% at September 30, 2013.

As of September 30, 2013 and December 31, 2012, TDS did not have nonfinancial assets or liabilities that required the application of fair value accounting for purposes of reporting such amounts in the Consolidated Balance Sheet.

3. Income Taxes

TDS' overall effective tax rate on Income (loss) before income taxes for the three and nine months ended September 30, 2013 was 37.8% and 42.7%, respectively, and for the three and nine months ended September 30, 2012 was 35.8% and 34.3%, respectively.

The effective tax rate for the three months ended September 30, 2013 was higher than the rate for the three months ended September 30, 2012 primarily as a result of a tax benefit related to the correction of state deferred taxes in 2012.

The effective tax rate for the nine months ended September 30, 2013 was higher than the rate for the nine months ended September 30, 2012 primarily as a result of the deferred tax expense related to the NY1 & NY2 Deconsolidation and the Divestiture Transaction (as described in Note 5 — Acquisitions, Divestitures and Exchanges) in 2013, and tax benefits related to the expiration of the statute of limitations for certain tax years and the correction of state deferred taxes in 2012.

4. Earnings Per Share

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

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

				Three Months Ended				Nine Months Ended			
				September 30,				September 30,			
				2013		2012		2013		2012	
(Dollars and shares in thousands, except per share amounts)											
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				\$	(9,524)	\$	29,105	\$	147,947	\$	123,671
Adjustments to compute diluted earnings:											
Noncontrolling interest adjustment					-		(211)		(1,065)		(867)
Preferred dividend adjustment					-		12		37		37
Net income (loss) attributable to common shareholders of											
TDS used in diluted earnings (loss) per share				\$	(9,524)	\$	28,906	\$	146,919	\$	122,841
Weighted average number of shares used in basic earnings (loss) per share:											
Common Shares					101,422		101,683		101,256		101,602
Series A Common Shares					7,149		7,136		7,149		7,133
Total					108,571		108,819		108,405		108,735
Effects of dilutive securities:											
Stock options					-		15		170		4
Restricted stock units					-		357		363		224
Preferred shares					-		55		55		55
Weighted average number of shares used in diluted earnings (loss) per share											
					108,571		109,246		108,993		109,018
Basic earnings (loss) per share attributable to TDS shareholders											
				\$	(0.09)	\$	0.27	\$	1.36	\$	1.14
Diluted earnings (loss) per share attributable to TDS shareholders											
				\$	(0.09)	\$	0.26	\$	1.35	\$	1.13

Table of Contents

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. 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 per share calculation was reflected in the three and nine months ended September 30, 2012.

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

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2013		2012	2013		2012
(Shares in thousands)						
Stock options	9,199		8,375	7,225		7,983
Restricted stock units	883		-	187		168
Preferred shares	55		-	-		-

5. 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.

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 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.”

U.S. Cellular has retained other assets and liabilities related to the Divestiture Markets, including network assets, retail stores and related equipment, and other buildings and facilities. The transaction does not affect spectrum licenses held by U.S. Cellular or variable interest entities (“VIEs”) that are not currently used in the operations of the Divestiture Markets. Pursuant to the Purchase and Sale Agreement, U.S. Cellular and Sprint also entered into certain other agreements, including customer and network transition services agreements, which require 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 will reimburse U.S. Cellular for providing such services at an amount equal to U.S. Cellular's cost, including applicable overhead allocations. 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 \$160 million of the Sprint Cost Reimbursement will be recorded in (Gain) loss on sale of business and other exit costs, net and up to \$40 million of the Sprint Cost Reimbursement will be recorded in Cost of services and products in the Consolidated Statement of Operations. For the nine months ended September 30, 2013, \$1.1 million of the Sprint Cost Reimbursement had been received and recorded in Cash received from divestitures in the Consolidated Statement of Cash Flows.

outplacement										
Contract termination costs	2012-2014	125,000	175,000	18,840	18,781	2,176				
Transaction costs	2012-2013	4,000	6,000	5,218	4,081	362				
Total (Gain) loss on sale of business and other exit costs, net		\$ (285,927)	\$ (264,927)	\$ (274,293)	\$ (298,770)	\$ (2,343)				
Depreciation, amortization and accretion expense										
Incremental depreciation, amortization and accretion, net of salvage values	2012-2014	175,000	210,000	154,058	134,000	45,676				
(Increase) decrease in Operating income		\$ (110,927)	\$ (54,927)	\$ (120,235)	\$ (164,770)	\$ 43,333				

Incremental depreciation, amortization and accretion, net of salvage values represents anticipated amounts to be 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 years indicated, this is estimated depreciation, amortization and accretion recorded on assets and liabilities of the Divestiture Markets after the November 6, 2012 transaction date less depreciation, amortization and accretion that would have been recorded on such assets and liabilities in the normal course, absent the Divestiture Transaction. As a result of the accelerated settlement dates of certain asset retirement obligations, TDS reclassified \$34.0 million of its asset retirement obligations from long to short-term liabilities at September 30, 2013.

Table of Contents

As a result of the transaction, TDS recognized the following amounts in the Consolidated Balance Sheet:												
Nine Months Ended September 30, 2013												
(Dollars in thousands)		Balance December 31, 2012	Costs Incurred	Cash Settlements (1)	Adjustments (2)	Balance September 30, 2013						
Accrued compensation												
Employee related costs including severance, retention, outplacement		\$ 12,305	\$ 6,750	\$ (11,460)	\$ (4,288)	\$ 3,307						
Other current liabilities												
Contract termination costs		\$ 30	\$ 12,201	\$ (6,561)	\$ -	\$ 5,670						
Other deferred liabilities and credits												
Contract termination costs		\$ -	\$ 7,246	\$ (1,488)	\$ -	\$ 5,758						
(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

On August 1, 2013, TDS Telecom acquired substantially all of the assets of Baja Broadband, LLC (“Baja”) for \$267.5 million in cash, less a preliminary working capital adjustment of \$3.4 million. Baja is a cable company that passes approximately 212,000 households in markets in Colorado, New Mexico, Texas, and Utah and offers video, broadband and voice services, which complement the TDS Telecom portfolio of products. Baja is included in the TDS Telecom Cable segment for reporting purposes.

On October 4, 2013, U.S. Cellular sold the majority of its Mississippi Valley non-operating market license (“unbuilt license”) for \$308.0 million. The sale will result in a \$252.2 million gain and a \$96.0 million current tax expense, which will be recorded in the fourth quarter of 2013. In addition, on August 14, 2013 U.S. Cellular entered into a definitive agreement to sell the majority of its St. Louis area unbuilt license for \$92.3 million. This transaction is

subject to regulatory approval and is expected to close by the end of 2013. In accordance with GAAP, the book value of both licenses has been accounted for and disclosed as “held for sale” in the Consolidated Balance Sheet at September 30, 2013.

Table of Contents

TDS' acquisitions during the nine months ended September 30, 2013 and 2012 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)												
2013												
U.S. Cellular licenses	\$	16,540	\$	-	\$	16,540	\$	-	\$	-	\$	-
TDS Telecom Cable business		264,089		61,270		-		123,668		11,542		67,609
Total	\$	280,629	\$	61,270	\$	16,540	\$	123,668	\$	11,542	\$	67,609
2012												
U.S. Cellular licenses	\$	57,957	\$	-	\$	57,957	\$	-	\$	-	\$	-
TDS Telecom HMS business		46,126		20,364		-		-		20,300		5,462
Total	\$	104,083	\$	20,364	\$	57,957	\$	-	\$	20,300	\$	5,462
(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 2013 and 2012 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 2.9 years in 2013 and 8.1 years in 2012.											

At September 30, 2013 and December 31, 2012, the following assets and liabilities were classified in the Consolidated Balance Sheet as "Assets held for sale" and "Liabilities held for sale":												
			Current Assets	Licenses	Goodwill	Property, Plant and Equipment	Loss on Assets Held for Sale (1)	Total Assets Held for Sale	Liabilities Held for Sale (2)			

(Dollars in thousands)															
September 30, 2013															
Divestiture of Missouri															
Market (3)	\$	726	\$	2,909	\$	178	\$	3,179		(1,116)	\$	5,876	\$	471	
Divestiture of Spectrum															
Licenses (4)		-		72,537		-		-		-		72,537		-	
Total	\$	726	\$	75,446	\$	178	\$	3,179	\$	(1,116)	\$	78,413	\$	471	
December 31, 2012															
Divestiture Transaction		\$	-	\$	140,599	\$	19,474	\$	-	\$	-	\$	160,073	\$	19,594
Bolingbrook Customer Care															
Center (5)		-		-		-		4,274		(1,105)		3,169		-	
Total	\$	-	\$	140,599	\$	19,474	\$	4,274	\$	(1,105)	\$	163,242	\$	19,594	
(1)	Loss on assets held for sale was recorded in (Gain) loss on sale of business and other exit costs, net in the Consolidated Statement of Operations.														
(2)	Liabilities held for sale primarily consisted of Customer deposits and deferred revenues.														
(3)	On May 15, 2013, U.S. Cellular entered into an agreement with a third party to sell the subscribers, spectrum and the network assets for a Missouri market.														
(4)	U.S. Cellular and/or its consolidated VIEs entered into agreements with third parties to sell unbuilt licenses in Mississippi Valley; St. Louis, MO; South Bend-Mishawaka, IN and Jackson, MI.														
(5)	Effective January 1, 2013, U.S. Cellular transferred its Bolingbrook Customer Care Center operations to an existing third party vendor.														

6. Intangible Assets

Table of Contents

Changes in TDS' Licenses and Goodwill for the nine months ended September 30, 2013 and 2012 are presented below. 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.

As a result of the acquisition of Baja on August 1, 2013, the TDS Telecom Cable segment recorded indefinite-lived Franchise rights of \$123.7 million as of September 30, 2013.

<u>Licenses</u>									
		U.S. Cellular	TDS Telecom Wireline	Non-Reportable Segment	Total				
(Dollars in thousands)									
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		(75,446)	-	-	(75,446)				
NY1 & NY2 Deconsolidation		(592)	-	-	(592)				
Balance September 30, 2013		\$ 1,402,521	\$ 2,800	\$ 15,220	\$ 1,420,541				
Balance December 31, 2011		\$ 1,475,994	\$ 2,800	\$ 15,220	\$ 1,494,014				
Acquisitions		57,957	-	-	57,957				
Other		3,147	-	-	3,147				
Balance September 30, 2012		\$ 1,537,098	\$ 2,800	\$ 15,220	\$ 1,555,118				

<u>Goodwill</u>										
		TDS Telecom								
		U.S. Cellular	Wireline	Cable	HMS	Non-Reportable Segment	Total			
(Dollars in thousands)										
Assigned value at time of acquisition		\$ 622,681	\$ 449,898	\$ -	\$ 103,627	\$ 4,317	\$ 1,180,523			
Accumulated impairment losses in prior periods		(333,900)	(29,440)	-	-	(515)	(363,855)			
Transferred to Assets held for sale		(19,474)	-	-	-	-	(19,474)			

Balance December 31, 2012		269,307		420,458		-		103,627		3,802		797,194
Acquisitions		-		-		61,270		-		-		61,270
Transferred to Assets held for sale		(178)		-		-		-		-		(178)
NY1 & NY2 Deconsolidation		(37,131)		-		-		-		-		(37,131)
Balance September 30, 2013		\$ 231,998		\$ 420,458		\$ 61,270		\$ 103,627		\$ 3,802		\$ 821,155
Assigned value at time of acquisition		\$ 622,681		\$ 450,156		\$ -		\$ 83,263		\$ 4,317		\$ 1,160,417
Accumulated impairment losses in prior periods		(333,900)		(29,440)		-		-		-		(363,340)
Balance December 31, 2011		288,781		420,716		-		83,263		4,317		797,077
Acquisitions		-		-		-		20,364		-		20,364
Impairment		-		-		-		-		(515)		(515)
Other		-		(258)		-		-		-		(258)
Balance September 30, 2012		\$ 288,781		\$ 420,458		\$ -		\$ 103,627		\$ 3,802		\$ 816,668

During the third quarter of 2013, TDS determined that an interim Goodwill impairment test was required for TDS Telecom's ILEC and HMS reporting units. The fair value of each reporting unit exceeded its respective carrying value, and accordingly no Goodwill impairment resulted.

7. 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.

Equity in earnings of unconsolidated entities totaled \$37.6 million and \$25.0 million in the three months ended September 30,

Table of Contents

2013 and 2012, respectively, and \$100.3 million and \$73.8 million in the nine months ended September 30, 2013 and 2012, respectively; of those amounts, TDS' investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed \$20.8 million and \$18.3 million in the three months ended September 30, 2013 and 2012, respectively, and \$61.2 million and \$54.6 million in the nine months ended September 30, 2013 and 2012, respectively. TDS held a 5.5% ownership interest in the LA Partnership during these periods.

The following table, which is based on information provided in part by third parties, summarizes the combined results of operations of TDS' equity method investments. Such combined results of operations include the results of the NY1 & NY2 Partnerships from April 3, 2013, the effective date of their deconsolidation as discussed below.												
		Three Months Ended					Nine Months Ended					
		September 30,					September 30,					
		2013			2012			2013		2012		
(Dollars in thousands)												
Revenues	\$	1,583,640		\$	1,451,642		\$	4,632,100		\$	4,314,727	
Operating expenses		1,130,717			1,067,915			3,302,886			3,164,334	
Operating income		452,923			383,727			1,329,214			1,150,393	
Other income, net		656			(334)			1,791			1,304	
Net income	\$	453,579		\$	383,393		\$	1,331,005		\$	1,151,697	

NY1 & NY2 Deconsolidation

U.S. Cellular holds a 60.00% interest in NY1 and a 57.14% interest in NY2 (together with NY1, the "Partnerships"). The remaining interests in the Partnerships are held by Cellco Partnership d/b/a Verizon Wireless ("Verizon Wireless"). The Partnerships are operated by Verizon Wireless under the Verizon Wireless brand. 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, TDS consolidated the financial results of these Partnerships in accordance with GAAP.

On April 3, 2013, U.S. Cellular entered into an agreement 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. After the NY1 & NY2 Deconsolidation, TDS retained the same ownership percentages in the Partnerships and will continue to report the same percentages of income from the Partnerships, which will be recorded in Equity in earnings of unconsolidated entities in the Consolidated Statement of Operations. In addition to the foregoing described arrangements, TDS and U.S. Cellular have certain other arm's length, ordinary business relationships with Verizon Wireless and its affiliates.

In accordance with GAAP, as a result of the NY1 & NY2 Deconsolidation, TDS' 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 TDS' 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 on investments in the Consolidated Statement of Operations.

The Partnerships were valued using a discounted cash flow approach and a publicly-traded guideline company method. 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 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	%

Table of Contents

The publicly-traded guideline company method develops an indication of fair value by calculating average market pricing multiples for selected publicly-traded companies using multiples of: Revenue and Earnings before Interest, Taxes, and Depreciation and Amortization (EBITDA). The developed multiples were applied to applicable financial measures of the Partnerships to determine fair value. The discounted cash flow approach and publicly-traded guideline company method were weighted to arrive at the total fair value of the Partnerships.

8. Commitments, Contingencies and Other Liabilities

Agreements

As previously disclosed, on August 17, 2010, U.S. Cellular and Amdocs Software Systems Limited (“Amdocs”) entered into a Software License and Maintenance Agreement (“SLMA”) and a Master Service Agreement (“MSA”) (collectively, the “Amdocs Agreements”) to develop a Billing and Operational Support System (“B/OSS”). In July 2013, U.S. Cellular implemented B/OSS, pursuant to an updated Statement of Work dated June 29, 2012. Total payments to Amdocs related to this implementation are estimated to be approximately \$183.5 million (subject to certain potential adjustments) over the period from commencement of the SLMA through the first half of 2014. As of September 30, 2013, \$133.3 million had been paid to Amdocs.

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 Federal Communications Commission (“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 \$1.7 million with respect to legal proceedings and unasserted claims as of both September 30, 2013 and December 31, 2012. TDS has not accrued any amount for legal proceedings if it cannot reasonably 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.

Apple iPhone Products Purchase Commitment

In March 2013, U.S. Cellular entered into an agreement with Apple to purchase an estimated \$1.2 billion of Apple iPhone products over a three-year period beginning in November 2013.

Table of Contents**9. Variable Interest Entities (VIEs)**Consolidated VIEs

As of September 30, 2013, TDS holds a variable interest in and consolidates the following VIEs under GAAP:

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

The power to direct the activities that most significantly impact the economic performance of 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.

On March 13, 2013, TDS acquired the remaining 37% ownership interest in Airadigm Communications, Inc. (“Airadigm”) that it did not own for \$3.5 million in cash. Prior to this acquisition, TDS consolidated Airadigm as a VIE. Subsequent to the acquisition date, Airadigm ceased to be a VIE but continues to be consolidated based on TDS’ controlling financial interest in the entity.

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

		September 30,		December 31,	
		2013		2012	
(Dollars in thousands)					
Assets					
	Cash and cash equivalents	\$	2,669	\$	7,028

	Other current assets		1,190		3,267
	Licenses and other intangible assets		308,091		325,707
	Property, plant and equipment, net		17,535		31,544
	Other assets and deferred charges		541		3,026
	Total assets	\$	330,026	\$	370,572
Liabilities					
	Current liabilities	\$	3	\$	9,985
	Deferred liabilities and credits		3,280		6,213
	Total liabilities	\$	3,283	\$	16,198

Other Related Matters

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 the business risks described in the “Risk Factors” in TDS’ Form 10-K for the year ended December 31, 2012.

TDS may agree to make additional capital contributions and/or advances to Aquinas Wireless and 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.

TDS’ capital contributions and advances made to Aquinas Wireless and King Street Wireless and/or their general partners in the nine months ended September 30, 2012 totaled \$5.0 million. There were no capital contributions or advances made to Aquinas Wireless or King Street Wireless or their general partners in the nine months ended September 30, 2013.

Table of Contents

U.S. Cellular began offering fourth generation Long-term Evolution (“4G LTE”) service in certain cities within its service areas during the first quarter of 2012 and has plans to continue the deployment of 4G LTE. U.S. Cellular currently provides 4G LTE service in conjunction with King Street Wireless. Aquinas Wireless is still in the process of developing long-term business plans.

10. 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. In 2012, TDS had a prior share repurchase authorization for \$250 million that expired on November 19, 2012.

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

Share repurchases made under these authorizations were as follows:

		Number of Shares	Average Cost Per Share	Amount
Nine Months Ended September 30,				
(Dollars and shares in thousands, except cost per share)				
2013				
	TDS Common Shares	205	\$ 28.42	\$ 5,813
	U.S. Cellular Common Shares	499	\$ 37.19	\$ 18,544
2012				
	TDS Common Shares	-	\$ -	\$ -
	U.S. Cellular Common Shares	-	-	-

11. Noncontrolling Interests

The following schedule discloses the effects of Net income (loss) attributable to TDS shareholders and changes in TDS' ownership interest in U.S. Cellular on TDS' equity:

				Nine Months Ended			
				September 30,			
				2013		2012	
(Dollars in thousands)							
Net income (loss) attributable to TDS shareholders				\$	147,984	\$	123,708
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					(13,235)		(8,554)
Change in TDS' Capital in excess of par value from U.S. Cellular's repurchase of U.S. Cellular shares					3,370		-
Purchase of ownership in subsidiaries from noncontrolling interests					(27)		2,429
Net transfers (to) from noncontrolling interests					(9,892)		(6,125)
Change from net income (loss) attributable to TDS and transfers (to) from noncontrolling interests				\$	138,092	\$	117,583

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 and limited liability companies ("LLCs"), where the terms of the underlying partnership or LLC 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

Table of Contents

with the respective partnership and LLC agreements. The termination dates of these mandatorily redeemable noncontrolling interests range from 2085 to 2107.

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 and LLCs on September 30, 2013, net of estimated liquidation costs, is \$39.7 million. This amount excludes redemption amounts recorded in Noncontrolling interests with redemption features in the Consolidated Balance Sheet. The estimate of settlement value was based on certain factors and assumptions which are subjective in nature. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount. TDS currently has no plans or intentions relating to the liquidation of any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the mandatorily redeemable noncontrolling interests in finite-lived consolidated partnerships and LLCs at September 30, 2013 was \$10.0 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 and LLCs. 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.

12. Reclassification Adjustments Out of Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss includes amounts related to TDS' defined benefit post-retirement plan. During the nine months ended September 30, 2013, reclassifications from Accumulated other comprehensive loss into Operating expenses, related to the retirement plan, were approximately \$0.5 million (net of income tax of \$0.3 million). Of this amount, \$0.3 million was recorded as a decrease to Cost of services and products and \$0.2 million was recorded as a decrease to Selling, general and administrative expense.

Table of Contents**13. Business Segment Information**

Financial data for TDS' reportable segments for the three and nine month periods ended, or as of September 30, 2013 and 2012, is as follows. During the quarter ended September 30, 2013, TDS reevaluated and changed its operating segments, which resulted in the following reportable segments: U.S. Cellular; TDS Telecom Wireline, Cable, HMS; and the Non-Reportable Segment. Periods presented for comparative purposes have been re-presented to conform to the revised presentation. See Note 1 — Basis of Presentation for additional information.

TDS Telecom										
Three Months Ended or as of September 30, 2013	U.S. Cellular	Wireline	Cable	HMS	TDS Telecom Eliminations	TDS Telecom Total	Non-Reportable Segment	Other Reconciling Items	Total	
(Dollars in thousands)										
Operating revenues	\$ 939,236	\$ 181,800	\$ 14,362	\$ 38,727	\$ (346)	\$ 234,543	\$ 14,152	\$ (6,951)	\$ 1,180	
Cost of services and products (excluding										
Depreciation, amortization and accretion										
expense reported below)	370,823	68,249	6,727	27,518	(322)	102,172	10,517	(2,227)	481	
	410,468	53,254	5,184	10,064	(24)	68,478	3,295	(5,377)	476	

Selling, general and administrative										
Depreciation, amortization and accretion	200,985	42,136	2,914	6,255	-	51,305	1,485	1,520	255	
Loss on asset disposals, net	1,701	426	-	10	-	436	32	(14)	2	
(Gain) loss on sale of business and other exit costs, net	(1,534)	-	-	-	-	-	-	-	(1,534)	
Operating income (loss)	(43,207)	17,735	(463)	(5,120)	-	12,152	(1,177)	(853)	(33,473)	
Equity in earnings of unconsolidated entities	37,360	2	-	-	-	2	-	247	37,360	
Interest and dividend income	1,095	331	-	15	-	346	1	1,065	2,007	
Gain (loss) on investments	-	830	-	-	-	830	-	(830)	-	
Interest expense	(11,329)	794	(32)	(397)	-	365	(1,024)	(12,973)	(24,664)	
Other, net	47	(35)	-	111	-	76	4	18	101	
Income (loss) before income taxes	(16,034)	19,657	(495)	(5,391)	-	13,771	(2,196)	(13,326)	(17,326)	

taxes											
Add											
back:											
Depreciation, amortization and accretion	200,985	42,136	2,914	6,255	-	51,305	1,485	1,520	255		
(Gain) loss on sale of business and other exit costs, net	(1,534)	-	-	-	-	-	-	-	(1,		
Gain (loss) on investments	-	(830)	-	-	-	(830)	-	830			
Interest expense	11,329	(794)	32	397	-	(365)	1,024	12,973	24		
Adjusted income before income taxes	\$ 194,746	\$ 60,169	\$ 2,451	\$ 1,261	\$ -	\$ 63,881	\$ 313	\$ 1,997	\$ 260		
Investments in unconsolidated entities	\$ 309,481	\$ 3,809	\$ -	\$ -	\$ -	\$ 3,809	\$ -	\$ 32,121	\$ 345		
Total assets	\$ 6,259,854	\$ 1,464,208	\$ 276,943	\$ 264,675	\$ -	\$ 2,005,826	\$ 58,697	\$ 375,323	\$ 8,699		
Capital expenditures	\$ 242,459	\$ 32,792	\$ 1,400	\$ 2,371	\$ -	\$ 36,563	\$ 203	\$ 2,023	\$ 281		

Table of Contents

		TDS Telecom										
Three Months Ended or as of September 30, 2012	U.S. Cellular	Wireline	Cable	HMS	TDS Telecom Eliminations	TDS Telecom Total	Non-Reportable Segment	Other Reconciling Items	Total			
(Dollars in thousands)												
Operating revenues	\$ 1,140,357	\$ 184,066	\$ -	\$ 36,428	\$ (77)	\$ 220,417	\$ 15,286	\$ (5,952)	\$ 1,370,108			
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	497,274	67,740	-	25,332	(77)	92,995	10,680	(490)	600,459			
Selling, general and administrative	438,526	57,619	-	10,901	-	68,520	3,790	(4,619)	506,217			
Depreciation, amortization and accretion	145,151	42,800	-	5,451	-	48,251	1,525	1,292	196,219			
Loss on asset disposals, net	11,262	345	-	6	-	351	5	24	11,642			

(Gain) loss on sale of business and other exit costs, net	65	-	-	-	-	-	-	-	65
Operating income (loss)	48,079	15,562	-	(5,262)	-	10,300	(714)	(2,159)	55,506
Equity in earnings of unconsolidated entities	24,816	11	-	-	-	11	-	188	25,015
Interest and dividend income	935	835	-	4	-	839	2	583	2,359
Interest expense	(9,501)	605	-	(278)	-	327	(989)	(10,334)	(20,497)
Other, net	200	(43)	-	(5)	-	(48)	65	-	217
Income (loss) before income taxes	64,529	16,970	-	(5,541)	-	11,429	(1,636)	(11,722)	62,600
Add back:									
Depreciation, amortization and accretion	145,151	42,800	-	5,451	-	48,251	1,525	1,292	196,219
(Gain) loss on sale of business and other exit costs, net	65	-	-	-	-	-	-	-	65

Interest expense	9,501	(605)	-	278	-	(327)	989	10,334	20,497
Adjusted income before income taxes	\$ 219,246	\$ 59,165	\$ -	\$ 188	\$ -	\$ 59,353	\$ 878	\$ (96)	\$ 279,381
Investments in unconsolidated entities	\$ 162,012	\$ 3,813	\$ -	\$ -	\$ -	\$ 3,813	\$ -	\$ 33,655	\$ 199,480
Total assets	\$ 6,536,348	\$ 1,505,381	\$ -	\$ 269,550	\$ -	\$ 1,774,931	\$ 65,732	\$ 13,805	\$ 8,390,816
Capital expenditures	\$ 199,104	\$ 39,110	\$ -	\$ 4,358	\$ -	\$ 43,468	\$ 294	\$ 1,722	\$ 244,588

Table of Contents

Nine Months Ended or as of September 30, 2013	TDS Telecom							Non-Reportable Segment	Other Reconciling Items	Total
	U.S. Cellular	Wireline	Cable	HMS	TDS Telecom Eliminations	TDS Telecom Total				
(Dollars in thousands)										
Operating revenues	\$ 3,016,112	\$ 545,568	\$ 14,362	\$ 115,665	\$ (531)	\$ 675,064	\$ 42,961	\$ (16,418)	\$ 3,717,613	
Cost of services and products (excluding depreciation, amortization and accretion expense reported below)	1,238,150	202,521	6,727	82,517	(507)	291,258	30,431	(2,931)	1,556,438	
Selling, general and administrative	124,675	167,326	5,184	29,346	(24)	201,832	10,767	(12,787)	1,434,347	
Depreciation, amortization and accretion	593,410	129,352	2,914	17,286	-	149,552	4,494	4,119	751,117	
Loss on asset disposals, net	16,153	(176)	-	123	-	(53)	32	(42)	16,017	

(Gain) loss on sale of business and other exit costs, net	(243,627)	-	-	-	-	-	-	(54,010)	(297,637)
Operating income (loss)	177,351	46,545	(463)	(13,607)	-	32,475	(2,763)	49,233	256,271
Equity in earnings of unconsolidated entities	99,797	16	-	-	-	16	-	490	100,303
Interest and dividend income	2,967	1,263	-	47	-	1,310	3	2,405	6,005
Gain (loss) on investments	18,527	830	-	-	-	830	-	(4,839)	14,518
Interest expense	(32,393)	2,420	(32)	(1,205)	-	1,183	(3,007)	(38,991)	(73,525)
Other, net	153	(213)	-	(11)	-	(224)	(153)	18	(240)
Income (loss) before income taxes	266,402	50,861	(495)	(14,776)	-	35,590	(5,920)	8,316	304,678
Add back:									
Depreciation, amortization and accretion	593,410	129,352	2,914	17,286	-	149,552	4,494	4,119	751,113
(Gain) loss on sale of business	(243,627)	-	-	-	-	-	-	(54,010)	(297,637)

Table of Contents

Nine Months Ended or as of September 30, 2012	TDS Telecom						Non-Reportable Segment	Other Reconciling Items	Total
	U.S. Cellular	Wireline	Cable	HMS	TDS Telecom Eliminations	TDS Telecom Total			
(Dollars in thousands)									
Operating revenues	\$ 3,336,878	\$ 556,317	\$ -	\$ 76,862	\$ (168)	\$ 633,011	\$ 45,300	\$ (16,121)	\$ 3,999,068
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	1,352,401	205,088	-	50,196	(168)	255,116	31,418	(1,595)	1,637,340
Selling, general and administrative	145,823	174,534	-	24,268	-	198,802	12,198	(10,603)	1,516,220
Depreciation, amortization and accretion	439,391	129,367	-	14,272	-	143,639	4,624	4,508	592,162
Loss on impairment of assets	-	-	-	-	-	-	515	-	515
	15,967	633	-	105	-	738	(5)	16	16,716

Loss on asset disposals, net										
(Gain) loss on sale of business and other exit costs, net	(4,148)	39	-	-	-	39	-	-	(4,109)	
Operating income (loss)	217,444	46,656	-	(11,979)	-	34,677	(3,450)	(8,447)	240,224	
Equity in earnings of unconsolidated entities	71,584	9	-	-	-	9	-	2,203	73,796	
Interest and dividend income	2,823	2,407	-	11	-	2,418	6	1,647	6,894	
Gain (loss) on investments	(3,728)	-	-	-	-	-	-	-	(3,728)	
Interest expense	(35,272)	2,017	-	(794)	-	1,223	(2,938)	(31,113)	(68,100)	
Other, net	173	(339)	-	(5)	-	(344)	367	-	196	
Income (loss) before income taxes	253,024	50,750	-	(12,767)	-	37,983	(6,015)	(35,710)	249,282	
Add back:										
Depreciation, amortization and accretion	439,391	129,367	-	14,272	-	143,639	4,624	4,508	592,162	
	(4,148)	39	-	-	-	39	-	-	(4,109)	

Table of Contents**14. Supplemental Cash Flow Disclosures**

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

TDS					
			Nine Months Ended		
			September 30,		
			2013		2012
(Dollars and shares in thousands)					
Common Shares withheld			190		-
Special Common Shares withheld			-		1
Aggregate value of Common Shares withheld		\$	5,563	\$	5
Aggregate value of Special Common Shares withheld		\$	-	\$	33
Cash receipts upon exercise of stock options		\$	7,903	\$	16
Cash disbursements for payment of taxes			(366)		(39)
Net cash receipts (disbursements) from exercise of stock options and vesting of other stock awards		\$	7,537	\$	(23)

U.S. Cellular					
			Nine Months Ended		
			September 30,		
			2013		2012
(Dollars and shares in thousands)					
Common Shares withheld			524		78
Aggregate value of Common Shares withheld		\$	21,387	\$	3,076
Cash receipts upon exercise of stock options		\$	7,223	\$	793
Cash disbursements for payment of taxes			(4,383)		(3,092)
Net cash receipts (disbursements) from exercise of stock		\$	2,840	\$	(2,299)

options and vesting of other stock awards					
---	--	--	--	--	--

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 \$34.8 million and \$8.6 million in grants during the nine months ended September 30, 2013 and 2012, respectively. TDS Telecom has received cumulative grants of \$56.4 million as of September 30, 2013. These funds reduced the carrying amount of the assets to which they relate. TDS Telecom had recorded \$23.9 million and \$13.3 million in grants receivable at September 30, 2013 and 2012, 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 will reduce the carrying amount of the assets to which they relate or will offset operating expenses. U.S. Cellular has received \$13.4 million in support funds as of September 30, 2013, of which \$12.1 million is included as a component of Other assets and deferred charges in the Consolidated Balance Sheet and \$1.3 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.

Table of Contents

TDS declared and paid dividends on Series A Common and Common Shares of \$41.4 million or \$0.3825 per share during the nine months ended September 30, 2013 and \$39.9 million or \$0.3675 per share during the nine months ended September 30, 2012.

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

15. Subsequent Event

On October 4, 2013, TDS acquired 100% of the outstanding shares of MSN Communications, Inc. (“MSN”) for \$40.0 million in cash, subject to working capital adjustments. MSN is an information technology solutions provider whose service offerings complement the TDS HMS portfolio of products. MSN will be included in the TDS Telecom HMS segment for reporting purposes.

Table of Contents

Item 2. 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 4.9 million wireless customers and 1.1 million wireline and cable customer connections at September 30, 2013. TDS conducts substantially 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”). TDS conducts printing and distribution services through its majority owned subsidiary, Suttle-Straus, Inc. (“Suttle-Straus”) and provides wireless services through its wholly-owned subsidiary, Airadigm Communications, Inc. (“Airadigm”), a Wisconsin-based service provider (collectively, the “Non-Reportable Segment”). Airadigm operates independently from U.S. Cellular and at this time, there are no plans to combine the operations of these subsidiaries. Suttle-Straus and Airadigm’s financial results were not significant to TDS’ operations in the three or nine months ended September 30, 2013.

The following discussion and analysis should be read in conjunction with TDS’ interim consolidated financial statements and notes included in Item 1 above, and with the description of TDS’ business, its audited consolidated financial statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the TDS Annual Report on Form 10-K (“Form 10-K”) for the year ended December 31, 2012.

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.

Previously, TDS had reported the following reportable segments: U.S. Cellular, TDS Telecom’s incumbent local exchange carrier (“ILEC”), its competitive local exchange carrier (“CLEC”), its HMS operations and the Non-Reportable Segment. As a result of recent acquisitions and changes in TDS’ strategy, operations and internal reporting, TDS has reevaluated and changed its operating segments during the quarter ended September 30, 2013, which resulted in the following reportable segments: U.S. Cellular; TDS Telecom’s Wireline, Cable and HMS operations; and the Non-Reportable Segment. The Wireline segment consists of the former ILEC and CLEC segments. The Cable segment consists of Baja Broadband, LLC (“Baja”), which was acquired in August 2013. Periods presented for comparative purposes have been re-presented to conform to the revised presentation described above.

The following provides historical and forward-looking information and analysis about TDS' existing business segments and provides estimates for certain metrics with respect to 2013 for U.S. Cellular and TDS Telecom. In addition, TDS' consolidated operations include corporate operations, corporate investments and the Non-Reportable Segment and may in the future include other possible activities or businesses that are not included within the operating results or estimates of U.S. Cellular or TDS Telecom. Accordingly, the combined operating results and estimates for U.S. Cellular and TDS Telecom do not currently represent, and in the future will not represent, the only components of the consolidated operating results or estimates of TDS, which will continue to reflect such other operations, investments, segments, activities or businesses.

U.S. Cellular

U.S. Cellular's consolidated operating markets cover 4.9 million customers in four geographic market areas in 23 states. As of September 30, 2013, U.S. Cellular's average penetration rate in its consolidated operating markets was 15.3%. 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.

Financial and operating highlights in the nine months ended September 30, 2013 included the following:

- On April 3, 2013, U.S. Cellular entered into an agreement relating to St. Lawrence Seaway RSA Cellular Partnership ("NY1") and New York RSA 2 Cellular Partnership ("NY2" and, together with NY1, the "Partnerships") with Cellco Partnership d/b/a Verizon Wireless, which required U.S. Cellular to deconsolidate the Partnerships and thereafter account for them as equity method investments (the "NY1 & NY2 Deconsolidation"). In connection with the deconsolidation, U.S. Cellular recognized a non-cash pre-tax gain of \$18.5 million which was recorded in Gain on investments in the Consolidated Statement of Operations. See Note 7 – Investments in Unconsolidated Entities in the Notes to the Consolidated Financial Statements for additional information regarding this transaction.
- On May 16, 2013, U.S. Cellular completed the sale of the Divestiture Markets (as defined below in the 2013 Estimates section), which included customers and certain PCS license spectrum, to Sprint Nextel Corporation for \$480 million in cash (the "Divestiture Transaction"). In connection with the sale, U.S. Cellular recognized a pre-tax gain of \$266.4 million which was

Table of Contents

recorded in (Gain) loss on sale of business and other exit costs, net in the Consolidated Statement of Operations. See Note 5 – Acquisitions, Divestitures and Exchanges in the Notes to the Consolidated Financial Statements for additional information regarding this transaction.

- 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.
- Total consolidated customers were 4,875,000 at September 30, 2013, including 4,713,000 retail customers (97% of total).

The following information is presented for Core Markets (as defined below in the 2013 Estimates section) excluding NY1 & NY2 markets:

- Retail customer net losses were 118,000 in 2013 compared to net additions of 14,000 in 2012. In the postpaid category, there were net losses of 146,000 in 2013, compared to net losses of 73,000 in 2012. Prepaid net additions were 28,000 in 2013 compared to net additions of 87,000 in 2012.
- Postpaid customers comprised approximately 92% of U.S. Cellular's retail customers as of September 30, 2013. The postpaid churn rate was 1.6% in 2013 compared to 1.5% in 2012. The prepaid churn rate was 6.2% in 2013 compared to 5.2% in 2012.
- Billed average revenue per user ("ARPU") increased to \$50.98 in 2013 from \$50.48 in 2012 reflecting an increase in postpaid ARPU due to increases in smartphone adoption and corresponding revenues from data products and services. Service revenue ARPU decreased to \$57.83 in 2013 from \$58.76 in 2012 due primarily to decreases in inbound roaming and eligible telecommunications carriers ("ETC") revenues.
- Postpaid customers on smartphone service plans increased to 47% as of September 30, 2013 compared to 38% as of September 30, 2012. In addition, smartphones represented 64% of all devices sold in 2013 compared to 53% in 2012.

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

- Retail service revenues decreased by \$223.3 million, or 8%, in 2013 to \$2,438.7 million due 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.
- U.S. Cellular completed the migration of its customers to a new Billing and Operational Support System ("B/OSS") which includes a new point-of-sale system and consolidates billing on one platform. This conversion resulted in billing delays, which caused Accounts receivable to increase at September 30, 2013. Future results of operations and cash flows may continue to be impacted by billing delays.
- Total additions to Property, plant and equipment were \$529.4 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, deploy fourth generation Long-term Evolution ("4G LTE") equipment, outfit new and remodel existing retail stores, develop new billing and other customer management related systems and platforms, and enhance existing office systems. Total cell sites in service decreased 4% year-over-year to 7,687 primarily as a result of the NY1 & NY2 Deconsolidation and the deactivation of certain cell sites in the Divestiture Markets.
- Operating income decreased \$40.1 million, or 18%, to \$177.4 million in 2013, reflecting the factors discussed below in the "Results of Operations".

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

- Remaining impacts of the Divestiture Transaction;
- Impacts of selling Apple iPhone products;
- Relative ability to attract and retain customers in a competitive marketplace in a cost effective manner;
- Effects of industry competition on service and equipment pricing and roaming revenues as well as the impacts associated with the expanding presence of carriers and other retailers offering low-priced, unlimited prepaid service;
- Expanded distribution of products and services in third-party national retailers;

Table of Contents

- Potential increases in prepaid customers, who generally generate lower ARPU, as a percentage of U.S. Cellular's customer base in response to changes in customer preferences and industry dynamics;

- 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;

- 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 network capacity;

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

- Costs of enhancements to U.S. Cellular's wireless networks;

- 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;

- Economic or competitive factors that restrict U.S. Cellular's access to devices desired by customers;

- As mentioned above, U.S. Cellular's conversion to a new billing system in the third quarter of 2013 caused billing delays. In addition, intermittent system outages and delayed system response times negatively impacted customer service and sales operations at certain times. Existing and potential future operational problems associated with the conversion to the new billing system could have adverse effects on customer satisfaction, customer service,

customer attrition, gross customer additions, uncollectible customer accounts receivable, or operating expenses. All of these factors could have a material adverse effect on U.S. Cellular's results of operations or cash flows.

- On October 4, 2013, U.S. Cellular sold the majority of its Mississippi Valley non-operating market license ("unbuilt license") for \$308.0 million. The sale will result in a \$252.2 million gain and a \$96.0 million current tax expense, which will be recorded in the fourth quarter of 2013; and
- On August 14, 2013, U.S. Cellular entered into a definitive agreement to sell the majority of its St. Louis area unbuilt license for \$92.3 million. This transaction will result in an estimated gain of \$76.2 million and an estimated current tax expense of \$28.5 million. This transaction is subject to regulatory approval and is expected to close by the end of 2013.

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

TDS Telecom

TDS Telecom seeks to be the preferred telecommunications solutions provider in its 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, voice, and video 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. In addition, TDS Telecom seeks to grow through strategic acquisitions, as demonstrated by the recent acquisition of Baja Broadband, LLC ("Baja"), a full-service cable company, providing video, broadband and voice services to residential and commercial customers, and HMS acquisitions, which provide colocation, dedicated hosting, hosted application management, cloud computing services and planning, engineering, procurement, installation, sales and management of Information Technology ("IT") infrastructure hardware solutions.

On August 1, 2013, TDS Telecom acquired substantially all of the assets of Baja for \$267.5 million in cash, less a preliminary working capital adjustment of \$3.4 million. Baja passes approximately 212,000 households in markets in Colorado, New Mexico, Texas, and Utah. 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. The operations of Vital are included in the HMS segment since the date of acquisition. These acquisitions impact the comparability of TDS Telecom operating results.

TDS Telecom's financial results for the nine months ended September 30, 2013 included the following:

Table of Contents

- Operating revenues increased \$42.1 million or 7% to \$675.1 million in 2013. The increase was due primarily to \$49.1 million from the acquisition of Vital in June 2012 and Baja in August 2013, partially offset by a decrease in revenues due to declines in Wireline connections and a decline in wholesale revenues.
- Operating expenses increased \$44.3 million or 7% to \$642.6 million in 2013 due primarily to \$50.4 million from the acquisition of Vital in June 2012 and Baja in August 2013, partially offset by a decrease in Wireline expenses.

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, and technologies such as Voice over Internet Protocol ("VoIP"), DOCSIS 3.0 offered by cable providers, 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 voice, broadband and video or satellite video;
- The expansion of Internet Protocol television ("IPTV") into additional market areas;
- Continued growth in hosted and managed services;
- Continued focus on cost-reduction initiatives through product and service cost improvements and process efficiencies;

- The Federal government's disbursement of Broadband Stimulus Funds to bring broadband to rural customers;
- Uncertainty related to 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 Baja transaction, including, but not limited to, the ability to successfully integrate and operate the cable business of Baja and the financial impacts of such transaction; and
- Potential acquisitions or divestitures by TDS and/or TDS Telecom of Wireline, Cable, HMS or other businesses.

See "Results of Operations—TDS Telecom."

FCC Reform Order

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. Appeals of the Reform Order are pending, have been consolidated and will be argued in the U.S. Court of Appeals for the 10th Circuit on November 19, 2013, with a decision anticipated in 2014.

There have been no significant changes to the Reform Order since December 31, 2012 that are expected to adversely affect U.S. Cellular or TDS Telecom. U.S. Cellular and TDS Telecom cannot predict the outcome of the consolidated appeals referred to above or any future rulemaking, reconsideration and legal challenges and, as a consequence, the impacts that such potential developments may have on U.S. Cellular's or TDS Telecom's business, financial condition or results of operations.

Auction 901

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, \$13.4 million of which was received as of September 30, 2013. In June 2013, U.S. Cellular provided \$17.4 million in letters of credit to the FCC.

Table of Contents

Pursuant to the auction rules, winning bidders must complete network build-out projects to provide 3G or 4G service to these areas within two or three years, respectively, and must also make their networks available to other providers for roaming. Winning bidders will receive support funding primarily upon achievement of coverage milestones defined in the auction rules. As a result of the funding awards in the Mobility Fund Phase I, U.S. Cellular will be required to meet certain regulatory conditions in the areas where it will receive funding to provide service. Examples of these regulatory conditions include: allowing other carriers to collocate on U.S. Cellular's towers, allowing voice and data roaming on U.S. Cellular's network, and submitting various reports and certifications to retain eligibility each year. It is possible that additional regulatory requirements will be imposed pursuant to the FCC's Reform Order.

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 lays out a roadmap for the voluntary commitments of AT&T and DISH Network Corporation ("DISH") to become fully binding under a regulatory frame work which will require the FCC to take additional actions proposed to be completed by the first quarter of 2014. Pursuant to this voluntary agreement, 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. As outlined in its voluntary commitment, 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 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 only interoperate across 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.

Cash Flows and Investments

See "Financial Resources" and "Liquidity and Capital Resources" below for additional information.

Pro Forma Financial Information

Refer to TDS' Form 8-K filed on November 1, 2013 for pro forma financial information related to the Divestiture Transaction and the NY1 & NY2 Deconsolidation for the three and nine months ended September 30, 2013.

2013 ESTIMATES

Estimates of full-year 2013 results for U.S. Cellular, TDS Telecom and TDS are shown below. Such estimates represent management's view as of the date of filing TDS' Form 10-Q for the quarter ended September 30, 2013. Such forward-looking statements should not be assumed to be current as of any future date. TDS undertakes no duty to update such information, whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from such estimated results.

		2013 Estimated Results (1)					
		U.S. Cellular (2)		TDS Telecom		TDS (2)(6)	
		Previous	Current	Previous	Current	Previous	Current
(Dollars in millions)							
Adjusted operating revenues (3)		\$3,615-\$3,715	\$3,590-\$3,640	\$890-\$930	\$920-\$960	\$4,550-\$4,690	\$4,555-\$4,645
Adjusted income before income taxes (4)		\$600-\$700	Unchanged	\$230-\$260	Unchanged	\$830-\$960	Unchanged
Capital expenditures		\$735	Unchanged	\$165	Unchanged	\$910	Unchanged

(1) These estimates are based on TDS' current plans, which include an expansion of the multi-year deployment of 4G LTE technology; such expansion includes deployment on 700 MHz in additional markets as well as deployment on the 850 MHz band to provide additional capacity for future growth in data usage, enable potential future 4G LTE roaming, and support the sale of Apple products. The financial impacts of selling Apple products in 2013 consist of the following:

Table of Contents

- Increased Adjusted operating revenues resulting from net incremental customers added and retained as a result of offering Apple products;
- Decreased Adjusted income before income taxes as a result of net increases in costs, primarily loss on equipment sales as a result of offering Apple products; and
- Increased Capital expenditures related to the deployment on the 850 MHz band to provide additional capacity for future growth in data usage, which includes capacity required to accommodate Apple products.

These estimates also reflect the impacts of the deconsolidation of certain partnerships as of April 2013 at U.S. Cellular. These estimates do not include (i) the reported gain on sale of business and other exit costs, net (ii) the reported gain on investments, or (iii) the actual or expected gains from spectrum license divestitures. In addition, the estimates reflect the impacts of the acquisition of Baja Broadband, LLC as of August 1, 2013 and MSN Communications, Inc. as of October 4, 2013, and of a multi-year deployment of IPTV at TDS Telecom. New developments or changing conditions (such as, but not limited to, regulatory developments, customer net growth, customer demand for data services, costs to deploy, agreements for content or franchises, or possible acquisitions, dispositions or exchanges) could affect TDS' plans and, therefore, its 2013 estimated results.

(2) These estimates reflect U.S. Cellular's consolidated results for 2013. Estimated results reflecting U.S. Cellular's Divestiture Markets and Core Markets are shown in the table below:

	2013 Estimated Results						
	U.S. Cellular Core		U.S. Cellular Divestiture		U.S. Cellular		
	Markets (5)		Markets (5)		Consolidated (5)		
	Previous	Current	Previous	Current	Previous	Current	
(Dollars in millions)							
Adjusted operating revenues (3)	\$3,475-\$3,575	\$3,450-\$3,500	\$140	Unchanged	\$3,615-\$3,715	\$3,590-\$3,640	
Adjusted income before income taxes (4)	\$560-\$660	Unchanged	\$40	Unchanged	\$600-\$700	Unchanged	
Capital expenditures	\$730	Unchanged	\$5	Unchanged	\$735	Unchanged	

These estimates reflect the Divestiture Transaction which closed on May 16, 2013. See Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to the Divestiture Markets and Divestiture Transaction.

(3) Adjusted operating revenues is a non-GAAP financial measure defined as Operating revenues excluding U.S. Cellular Equipment sales revenues. U.S. Cellular Equipment sales revenues are excluded from Adjusted operating revenues since U.S. Cellular equipment is generally sold at a net loss, and such net loss that results from U.S. Cellular Equipment sales revenues less U.S. Cellular Cost of equipment sold is viewed as a cost of earning service revenues for purposes of assessing business results. For purposes of developing this guidance, TDS does not calculate an estimate of U.S. Cellular Equipment sales revenues. TDS believes this measure provides useful information to investors regarding TDS' results of operations. Adjusted operating revenues is not a measure of financial performance under GAAP and should not be considered as an alternative to Operating revenues as an indicator of the Company's operating performance.

(4) Adjusted income before income taxes is a non-GAAP financial measure defined as Income before income taxes, adjusted for the items set forth in the reconciliation below. Adjusted income before income taxes excludes these items in order to show operating results on a more comparable basis from period to period. In addition, 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 such amounts that are excluded are non-recurring, infrequent or unusual; such amounts may occur in the future. Adjusted income before income taxes is not a measure of financial performance under GAAP and should not be considered as an alternative to Income before income taxes as an indicator of the Company's operating performance or as an alternative to Cash flows from operating activities, determined in accordance with GAAP, as an indicator of cash flows or as a measure of liquidity. 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). The following tables provide a reconciliation of Income (loss) before income taxes to Adjusted income before income taxes for 2013 Estimated Results, nine months ended September 30, 2013 actual results, and 2012 actual results:

		2013 Current Estimated Results						
		U.S. Cellular Core Markets (5)	U.S. Cellular Divestiture Markets (2)(5)	U.S. Cellular Consolidated (5)	TDS Telecom	TDS (6)		
(Dollars in millions)								
Income (loss) before income taxes		\$315-\$415	\$35	\$350-\$450	\$25-\$55			\$360-\$490
Depreciation, amortization and accretion expense (7)		\$540	\$250	\$790	\$205			\$1,005
(Gain) loss on sale of business and other exit costs, net		—	(\$245)	(\$245)	—			(\$300)
(Gain) loss from spectrum license divestitures		(\$325)	—	(\$325)	—			(\$325)
		(\$20)	—	(\$20)	—			(\$15)

(Gain) loss on investments								
Interest expense	\$50		—	\$50		—	\$105	
Adjusted income before income taxes	\$560-\$660		\$40	\$600-\$700		\$230-\$260	\$830-\$960	

Table of Contents

		Actual Results											
		Nine Months Ended September 30, 2013					Year Ended December 31, 2012						
		U.S. Cellular Consolidated (5)		TDS Telecom			U.S. Cellular Consolidated (5)		TDS Telecom			TDS (6)	
(Dollars in millions)													
Income before income taxes	\$	266		\$	36	\$	304	\$	205	\$	45	\$	196
Depreciation, amortization and accretion expense (7)		593			150		752		609		193		814
(Gain) loss on sale of business and other exit costs, net		(244)			—		(298)		21		—		21
(Gain) loss from spectrum license divestitures		—			—		—		—		—		—
(Gain) loss on investments		(18)			(1)		(15)		4		—		4
Interest expense		33			(2)		74		42		(1)		87
Adjusted income before income taxes	\$	630		\$	183	\$	817	\$	881	\$	237	\$	1,122
(5)	The U.S. Cellular Consolidated amounts represent GAAP financial measures and include the results of both the Core Markets and the Divestiture Markets. The amounts for Core Markets and Divestiture Markets represent non-GAAP financial measures. TDS believes that the amounts for the Core Markets and Divestiture Markets may be useful to investors and other users of its financial information in evaluating the separate results for the Core Markets. Divestiture Markets are comprised of U.S. Cellular's Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets. Core Markets are comprised of all other markets in which U.S. Cellular conducts business including Peoria, Rockford and certain other areas in Illinois, and in Columbia, Joplin, Jefferson City and certain other areas in Missouri. 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 sale and other retained assets from the Divestiture Markets.
(6)	The TDS column includes U.S. Cellular, TDS Telecom and also the impacts of consolidating eliminations, corporate operations and non-reportable segments, all of which are not presented above.
(7)	The 2013 estimated amount for Depreciation, amortization and accretion expense in the U.S. Cellular Divestiture Markets includes approximately \$171 million of incremental accelerated depreciation, amortization and accretion resulting from the Divestiture Transaction. Actual results for the nine months ended September 30, 2013 and the year ended December 31, 2012 include \$134 million and \$20 million, respectively, of incremental accelerated depreciation, amortization and accretion resulting from the Divestiture Transaction.

TDS' management currently believes that the foregoing estimates represent a reasonable view of what is achievable considering actions that TDS and its subsidiaries have taken and will be taking. However, the current competitive conditions in the telecommunications industry have created a challenging environment that could continue to significantly impact actual results.

Table of Contents

U.S. Cellular expects to continue its focus on customer satisfaction by delivering a high quality network, attractively priced service plans, a broad line of wireless devices and other products, and outstanding customer service. U.S. Cellular believes that future growth in its revenues will result primarily from selling additional products and services, including data products and services, to its existing customers, increasing the number of multi-device users among its existing customers, and attracting wireless users switching from other wireless carriers. U.S. Cellular is focusing on opportunities to increase revenues, pursuing cost reduction initiatives in various areas and implementing a number of initiatives to enable future growth. The initiatives are intended, among other things, to allow U.S. Cellular to accelerate its introduction of new products and services, better segment its customers for new services and retention, sell additional services such as data, expand its distribution channels, enhance its internet sales and customer service capabilities, improve its prepaid products and services and reduce operational expenses over the long term.

TDS Telecom will continue to focus on revenue growth through new service offerings as well as expense reduction through product and service cost improvement and process efficiencies. In order to achieve these objectives TDS Telecom has allocated capital expenditures for: process and productivity initiatives, increased network and product capabilities for broadband services, the expansion of IPTV, success-based spending to sustain managedIP, IPTV and HMS growth, and plant upgrades and success-based spending at Baja. Additionally, TDS Telecom will fund its share for projects approved under the Recovery Act to increase broadband access in unserved areas. Under the Recovery Act, TDS Telecom will receive \$105.1 million in federal grants and will provide \$30.9 million (\$12.0 million of which is included in 2013 estimated capital expenditures) of its own funds to complete 44 projects. Under the terms of the grants, the projects must be completed by June of 2015.

Table of Contents

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012									
RESULTS OF OPERATIONS — CONSOLIDATED									
Nine Months Ended September 30,		2013		2012		Change		Percentage Change	
(Dollars in thousands, except per share amounts)									
Operating revenues									
	U.S. Cellular	\$	3,016,112	\$	3,336,878	\$	(320,766)	(10)	%
	TDS Telecom		675,064		633,011		42,053	7	%
	All other (1)		26,543		29,179		(2,636)	(9)	%
	Total operating revenues		3,717,719		3,999,068		(281,349)	(7)	%
Operating expenses									
	U.S. Cellular		2,838,761		3,119,434		(280,673)	(9)	%
	TDS Telecom		642,589		598,334		44,255	7	%
	All other (1)		(19,927)		41,076		(61,003)	>(100)	%
	Total operating expenses		3,461,423		3,758,844		(297,421)	(8)	%
Operating income (loss)									
	U.S. Cellular		177,351		217,444		(40,093)	(18)	%
	TDS Telecom		32,475		34,677		(2,202)	(6)	%
	All other (1)		46,470		(11,897)		58,367	>100	%
	Total operating income		256,296		240,224		16,072	7	%
Other income and (expenses)									
	Equity in earnings of unconsolidated entities		100,303		73,796		26,507	36	%
	Interest and dividend income		6,685		6,894		(209)	(3)	%
	Gain (loss) on investments		14,518		(3,728)		18,246	>100	%
	Interest expense		(73,208)		(68,100)		(5,108)	(8)	%
	Other, net		(206)		196		(402)	>(100)	%
	Total other income (expenses)		48,092		9,058		39,034	>100	%
Income before income taxes									
	Income tax expense		304,388		249,282		55,106	22	%
			130,056		85,619		44,437	52	%
Net income									
			174,332		163,663		10,669	7	%
	Less: Net income attributable to noncontrolling interests, net of tax		26,348		39,955		(13,607)	(34)	%

Net income attributable to TDS shareholders				147,984			123,708			24,276		20	%
	Preferred dividend requirement			(37)			(37)			-		-	
Net income available to common shareholders			\$	147,947		\$	123,671		\$	24,276		20	%
Basic earnings per share attributable													
	to TDS shareholders		\$	1.36		\$	1.14		\$	0.22		19	%
Diluted earnings per share attributable													
	to TDS shareholders		\$	1.35		\$	1.13		\$	0.22		19	%
(1)	Consists of Non-Reportable Segment, corporate operations and intercompany eliminations between U.S. Cellular, TDS Telecom, the Non-Reportable Segment and corporate operations. 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 consolidated Operating revenues and expenses.

Equity in earnings of unconsolidated entities

TDS’ investment in the Los Angeles SMSA Limited Partnership (“LA Partnership”) contributed \$61.2 million and \$54.6 million to Equity in earnings of unconsolidated entities in 2013 and 2012, respectively. In 2013, TDS’ investment in the NY1 & NY2 Partnerships contributed \$18.2 million.

Table of Contents

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 connection with the deconsolidation, TDS recognized a non-cash pre-tax gain of \$14.5 million which was recorded in Gain (loss) on investments for the nine months ended September 30, 2013. See Note 7 – Investments in Unconsolidated Entities in the Notes to the Consolidated Financial Statements for additional information.

Interest expense

The increase in interest expense was 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

See Note 3 — Income Taxes in the Notes to Consolidated Financial Statements for a discussion of the change in Income tax expense and the overall effective tax rate on Income before income taxes.

Net income attributable to noncontrolling interests, net of tax

Net income attributable to noncontrolling interests, net of tax includes the noncontrolling public shareholders' share of U.S. Cellular's net income and the noncontrolling shareholders' or partners' share of certain TDS or U.S. Cellular subsidiaries' net income or loss. The impact due to the NY1& NY2 Deconsolidation caused a decrease in the Noncontrolling shareholders' or partners' line item below for the nine months ended September 30, 2013.

				Nine Months Ended		
				September 30,		
				2013		2012
(Dollars in thousands)						
Net income attributable to noncontrolling interests, net of tax						
	U.S. Cellular noncontrolling public shareholders'			\$	21,569	\$ 24,686
	Noncontrolling shareholders' or partners'				4,779	15,269
				\$	26,348	\$ 39,955

Table of Contents**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.

Following is a table of summarized operating data for U.S. Cellular's Consolidated Markets. In 2012, the Divestiture Markets and NY1 and NY2 are included in U.S. Cellular's consolidated results. NY1 and NY2 are consolidated through the end of the first quarter of 2013 and Divestiture Markets are consolidated through May 16, 2013. Unless otherwise noted, figures reported in Results of Operations are representative of consolidated results.

		2013		2012	
As of or for Nine Months Ended September 30,					
Retail Customers					
Postpaid					
	Total at end of period	4,343,000		5,175,000	
	Gross additions	521,000		639,000	
	Net additions (losses)	(254,000)		(124,000)	
	ARPU(1)	\$ 54.61		\$ 54.26	
	Churn rate(2)	1.8 %		1.6 %	
	Smartphone penetration(3)(4)	47.1 %		38.6 %	
Prepaid					
	Total at end of period	370,000		386,000	
	Gross additions	246,000		261,000	
	Net additions (losses)	5,000		81,000	
	ARPU(1)	\$ 31.46		\$ 33.06	
	Churn rate(2)	6.6 %		6.1 %	
Total customers at end of period		4,875,000		5,808,000	
Billed ARPU(1)		\$ 50.94		\$ 50.77	
Service revenue ARPU(1)		\$ 57.86		\$ 58.93	
Smartphones sold as a percent of total devices sold		64.2 %		53.0 %	
Total Population					
	Consolidated markets(5)	84,025,000		92,996,000	
	Consolidated operating markets(5)	31,822,000		46,966,000	
Market penetration at end of period					
	Consolidated markets(6)	5.8 %		6.2 %	
	Consolidated operating markets(6)	15.3 %		12.4 %	
Capital expenditures (000s)		\$ 529,366		\$ 583,632	
Total cell sites in service		7,687		7,984	
Owned towers in service		4,422		4,377	

Following is a table of summarized operating data for U.S. Cellular's Core Markets. For comparability NY1 and NY2 markets' results are not included in Core Markets as of or for the nine months ended September 30, 2013 or 2012, respectively.

		2013		2012	
As of or for Nine Months Ended September 30,					
Retail Customers					
Postpaid					
	Total at end of period		4,343,000		4,515,000
	Gross additions		506,000		538,000
	Net additions (losses)		(146,000)		(73,000)
	ARPU(1)	\$	54.46	\$	53.57
	Churn rate(2)		1.6 %		1.5 %
	Smartphone penetration(3)(4)		47.1 %		37.8 %
Prepaid					
	Total at end of period		370,000		305,000
	Gross additions		232,000		201,000
	Net additions (losses)		28,000		87,000
	ARPU(1)	\$	31.21	\$	32.83
	Churn rate(2)		6.2 %		5.2 %
Total customers at end of period			4,875,000		5,012,000
Billed ARPU (1)		\$	50.98	\$	50.48
Service revenue ARPU(1)		\$	57.83	\$	58.76
Smartphones sold as a percent of total devices sold			64.4 %		53.0 %
Total Population					
	Consolidated markets(5)		84,025,000		82,595,000
	Consolidated operating markets(5)		31,822,000		31,110,000
Market penetration at end of period					
	Consolidated markets(6)		5.8 %		6.1 %
	Consolidated operating markets(6)		15.3 %		16.1 %
Capital expenditures (000s)		\$	523,835	\$	527,443
Total cell sites in service			6,127		6,089
Owned towers in service			3,859		3,818

Table of Contents

- (1) 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:
- a. Postpaid ARPU consists of total postpaid service revenues and postpaid customers.
 - b. Prepaid ARPU consists of total prepaid service revenues and prepaid customers.
 - c. Billed ARPU consists of total postpaid, prepaid and reseller service revenues and postpaid, prepaid and reseller customers.
 - d. Service revenue ARPU consists of total retail service revenues, inbound roaming and other service revenues and postpaid, prepaid and reseller customers.
- (2) Churn metrics represent the percentage of the postpaid or prepaid customers that disconnect service each month. These metrics represent the average monthly postpaid or prepaid churn rate for each respective period.
- (3) Smartphones represent wireless devices which run on an Android™, BlackBerry® or Windows Mobile® operating system, excluding tablets.
- (4) Smartphone penetration is calculated by dividing postpaid smartphone customers by total postpaid customers.
- (5) Used only to calculate market penetration of consolidated and core markets and consolidated and core 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 and core markets and consolidated and core operating markets, respectively, as estimated by Claritas®.

Table of Contents

Components of Operating Income									
Nine Months Ended September 30,									
(Dollars in thousands)									
		2013		2012		Change		Percentage Change	
Retail service	\$	2,438,715	\$	2,661,965	\$	(223,250)	(8)	%	
Inbound roaming		202,904		272,627		(69,723)	(26)	%	
Other		128,026		155,340		(27,314)	(18)	%	
Service revenues		2,769,645		3,089,932		(320,287)	(10)	%	
Equipment sales		246,467		246,946		(479)	-		
Total operating revenues		3,016,112		3,336,878		(320,766)	(10)	%	
System operations (excluding Depreciation, amortization and accretion reported below)		585,997		725,636		(139,639)	(19)	%	
Cost of equipment sold		652,153		626,765		25,388	4	%	
Selling, general and administrative		1,234,675		1,315,823		(81,148)	(6)	%	
Depreciation, amortization and accretion		593,410		439,391		154,019	35	%	
Loss on asset disposals, net		16,153		15,967		186	1	%	
(Gain) loss on sale of business and other exit costs, net		(243,627)		(4,148)		(239,479)	>100	%	
Total operating expenses		2,838,761		3,119,434		(280,673)	(9)	%	
Operating income	\$	177,351	\$	217,444	\$	(40,093)	(18)	%	

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 Universal Service Fund ("USF").

Retail service revenues

Retail service revenues decreased by \$223.3 million, or 8%, in 2013 to \$2,438.7 million due 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.

Billed ARPU increased to \$50.94 in 2013 from \$50.77 in 2012. This overall increase is due primarily to an increase in postpaid ARPU to \$54.61 in 2013 from \$54.26 in 2012, reflecting increases in smartphone adoption and corresponding revenues from data products and services.

U.S. Cellular expects continued pressure on 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.

U.S. Cellular accounts for loyalty reward points under the deferred revenue method. Under this method, U.S. Cellular allocates a portion of the revenue billed to customers with applicable plans to the loyalty reward points. The revenue allocated to these points is initially deferred in the Consolidated Balance Sheet and is recognized in future periods when the loyalty reward points are redeemed or used. Application of the deferred revenue method of accounting related to loyalty reward points resulted in deferring net revenues of \$19.6 million and \$19.8 million in 2013 and 2012, respectively. Deferred revenues related to loyalty reward points are included in Customer deposits and deferred revenues in the Consolidated Balance Sheet.

Inbound roaming revenues

Inbound roaming revenues decreased by \$69.7 million, or 26%, in 2013 to \$202.9 million. The decrease was due primarily to lower rates and the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation. 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. U.S. Cellular expects continued growth in data volume but also expects that the revenue impact of this growth will be offset by the impacts of decreases in data rates and voice volume.

Table of Contents

Other revenues

Other revenues decreased by \$27.3 million, or 18%, in 2013 compared to 2012 due primarily to decreases in ETC support. Pursuant to the FCC's Reform Order (see "Overview – FCC Reform Order" above), ETC support was frozen on January 1, 2012 at the 2011 level and is being phased down at the rate of 20% per year beginning July 1, 2012.

If the Phase II Mobility Fund is not operational by July 2014, the aforementioned phase down will halt at that time and U.S. Cellular will receive 60% of its baseline support until the Phase II Mobility Fund is operational. At this time, U.S. Cellular cannot predict the net effect of the FCC's changes to the USF high cost support program in the Reform Order. Accordingly, U.S. Cellular cannot predict whether such changes will have a material adverse effect on U.S. Cellular's business, financial condition or results of operations.

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 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. U.S. Cellular anticipates that it will continue to sell wireless devices to agents in the future.

Equipment sales revenues were flat in 2013 compared to 2012. An increase of 19% in average revenue per device sold and an increase in equipment activation fees were offset by selling fewer devices partially due to the Divestiture Transaction. Average revenue per device sold increased due to general customer preference for 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.

Key components of the \$139.6 million, or 19%, decrease in System operations expenses to \$586.0 million were as follows:

- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming decreased \$58.5 million, or 31%, due primarily to lower rates. Data roaming usage increased; however, the impact of the increase was more than offset by lower rates for both data and voice and lower voice volume.
- Customer usage expenses decreased by \$43.4 million, or 19%, driven by impacts of the Divestiture Transaction and decreases in intercarrier charges and certain data costs partially offset by increases due to network costs for 4G LTE.
- Maintenance, utility and cell site expenses decreased \$37.7 million, or 12%, driven primarily by impacts of the Divestiture Transaction.

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 by \$25.4 million, or 4%, in 2013 to \$652.2 million. The increase was driven by a 28% increase in the average cost per device sold, 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. The total number of devices sold decreased by 17% partially due to the Divestiture Transaction.

Table of Contents

U.S. Cellular's loss on equipment, defined as equipment sales revenues less cost of equipment sold, was \$405.7 million and \$379.8 million for 2013 and 2012, respectively. U.S. Cellular expects loss on equipment to continue to be a significant cost in the foreseeable future as wireless carriers continue to use device availability and pricing as a means of competitive differentiation. In addition, U.S. Cellular expects increasing sales of smartphones, including sales of Apple iPhones, to result in higher equipment subsidies over time; these devices generally have higher purchase costs which cannot be recovered through proportionately higher selling prices to customers. Smartphones sold as a percentage of total devices sold were 64.2% and 53.0% in 2013 and 2012, respectively.

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.

Key components of the \$81.1 million, or 6%, decrease to \$1,234.7 million were as follows:

- Selling and marketing expense decreased by \$65.3 million, or 11%, 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 expense decreased by \$15.8 million, or 2%, driven by corporate cost containment and reduction initiatives partially offset by costs associated with launching the new billing system.

Depreciation, amortization and accretion

Depreciation, amortization and accretion increased \$154.0 million, or 35%, in 2013 to \$593.4 million due primarily to the acceleration of depreciation, amortization and accretion in the Divestiture Markets. The impact of the acceleration was \$134.0 million in 2013. The accelerated depreciation, amortization and accretion in the Divestiture Markets is expected to conclude in the first quarter of 2014.

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

The net gain in 2013 resulted from the closing and continued impacts of the Divestiture Transaction. The net gain in 2012 resulted from the sale of a wireless market.

Table of Contents**RESULTS OF OPERATIONS — TDS TELECOM**

TDS Telecom's Wireline and Cable operations served 1,119,200 customer connections at September 30, 2013. The acquisition of Baja contributed to a net increase of 133,400 customer connections from the 985,800 customer connections served at September 30, 2012. In addition, TDS Telecom provides IT infrastructure solutions including colocation, dedicated hosting, hosted application management and cloud computing services, and sales, installation and management of IT infrastructure hardware solutions through its HMS operations.

Previously, TDS Telecom had reported Results of Operations for its ILEC, CLEC and HMS segments. As a result of recent acquisitions and changes in TDS' strategy, operations and internal reporting, TDS has reevaluated and changed its operating segments during the quarter ended September 30, 2013, which resulted in the following reportable segments: Wireline, Cable and HMS. The Wireline segment consists of the former ILEC and CLEC segments. The Cable segment consists of Baja, which was acquired in August 2013. Periods presented for comparative purposes have been re-presented to conform to the revised presentation described above.

TDS Telecom acquired Vital in June 2012. The results of operations of Vital are included in the HMS segment since the date of acquisition and impact the comparability of the HMS operating results. The results of operations of Baja are included in the Cable segment since the date of acquisition.

The following table summarizes customer connections for TDS Telecom's Wireline and Cable operations:												
As of September 30,										2013	2012	Change
Wireline Connections												
Residential												
			Voice					358,200		382,000		(23,800)
			Broadband					229,500		232,000		(2,500)
			IPTV					12,200		6,700		5,500
			Wireline residential connections					599,900		620,700		(20,800)
Commercial												
			Voice					223,800		250,100		(26,300)
			Broadband					27,600		30,500		(2,900)
			managedIP					121,000		84,500		36,500
			Wireline commercial connections					372,400		365,100		7,300
Total Wireline connections										972,300	985,800	(13,500)

Cable Connections									
		Video			70,300			-	70,300
		Broadband			59,800			-	59,800
		Voice			16,800			-	16,800
		Cable connections			146,900			-	146,900
Total Wireline and Cable Customer Connections					1,119,200			985,800	133,400

Table of Contents

TDS Telecom							
Components of Operating Income							
						Percentage	
Nine Months Ended September 30,	2013		2012		Change	Change	
(Dollars in thousands)							
Operating revenues							
Wireline	\$	545,568	\$	556,317	\$ (10,749)	(2) %	
Cable		14,362		-	14,362	N/M	
HMS		115,665		76,862	38,803	50 %	
Intra-company elimination		(531)		(168)	(363)	>(100) %	
		TDS Telecom operating revenues		675,064	633,011	42,053	7 %
Operating expenses							
Wireline		499,023		509,661	(10,638)	(2) %	
Cable		14,825		-	14,825	N/M	
HMS		129,272		88,841	40,431	46 %	
Intra-company elimination		(531)		(168)	(363)	>(100) %	
		TDS Telecom operating expenses		642,589	598,334	44,255	7 %
		TDS Telecom operating income	\$	32,475	\$ 34,677	\$ (2,202)	(6) %

Wireline Operations							
Components of Operating Income							
						Percentage	
Nine Months Ended September 30,	2013		2012		Change	Change	
(Dollars in thousands)							
Operating revenues							
Residential	\$	220,172	\$	223,041	\$ (2,869)	(1) %	
Commercial		173,702		172,299	1,403	1 %	
Wholesale		151,694		160,977	(9,283)	(6) %	
		Total operating revenues		545,568	556,317	(10,749)	(2) %
Operating expenses							
		Cost of services and products (excluding Depreciation, amortization and accretion)		202,521	205,088	(2,567)	(1) %

	reported below)								
	Selling, general and administrative		167,326		174,534		(7,208)		(4) %
	Depreciation, amortization and accretion		129,352		129,367		(15)		-
	Loss on asset disposals, net		(176)		633		(809)		>(100) %
	Loss on sale of business and other exit costs, net		-		39		(39)		N/M
	Total operating expenses		499,023		509,661		(10,638)		(2) %
	Total operating income	\$	46,545	\$	46,656	\$	(111)		-

N/M – Not meaningful

Operating Revenues

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

Residential revenues decreased \$2.9 million or 1% to \$220.2 million in 2013. A 3% reduction in the number of average residential connections reduced revenues by \$6.0 million partially offset by a \$3.9 million increase in revenues due to a 2% increase in average revenue per residential connection. The increase in average revenue was mainly driven by growth in customers opting for faster broadband speeds and the growth of customers selecting higher tier IPTV packages.

Table of Contents

Commercial revenues consist of data and voice services and sales and installation of IP-based telecommunication systems to TDS Telecom's Wireline commercial customer base.

Commercial revenues increased \$1.4 million or 1% to \$173.7 million in 2013 which was due primarily to a 2% increase in average commercial connections. Revenue from the 53% growth in managedIP connections outpaced the decrease in revenue caused by the 11% decline in voice connections.

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

Wholesale revenues decreased \$9.3 million or 6% to \$151.7 million. Network access revenues decreased \$5.9 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 \$4.0 million due to a 15% reduction in intra-state minutes-of-use. Revenues received through inter-state and intra-state regulatory recovery mechanisms increased \$1.8 million.

Operating Expenses

Cost of services and products (excluding Depreciation, amortization and accretion)

Cost of services and products decreased \$2.6 million or 1% to \$202.5 million in 2013 due primarily to a \$4.9 million decrease in cost of goods sold related to long distance services and promotional giveaways. In addition, carrier interconnection charges decreased \$2.2 million as a result of lower access charges that became effective in July of 2012 related to the Reform Order. These decreases were partially offset by increases in charges related to IPTV expansion and employee related costs.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased \$7.2 million or 4% to \$167.3 million in 2013. Reductions in Federal USF contributions due to lower revenues, information technology charges, bad debts, and property taxes were partially offset by increases in management consulting expenses.

Loss on asset disposals, net

Loss on asset disposals, net decreased \$0.8 million due primarily to a gain recognized on the sale of a warehouse in 2013.

Cable Operations						
Components of Operating Income (Loss)						
Nine Months Ended September 30,					2013 (1)	
(Dollars in thousands)						
Operating revenues						
	Residential			\$		11,642
	Commercial					2,720
		Total operating revenues				14,362
Operating expenses						
	Cost of services and products (excluding Depreciation, amortization and accretion reported below)					6,727
	Selling, general and administrative					5,184
	Depreciation, amortization and accretion					2,914
		Total operating expenses				14,825
		Total operating income (loss)		\$		(463)
(1)	Represents the operations of Baja from August 1, 2013 (date of acquisition) to September 30, 2013.					

Operating Revenues

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

Baja had 104,500 residential customer connections which generated revenues of \$11.6 million since the acquisition of Baja on August 1, 2013.

Table of Contents

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

Baja had 42,400 commercial customer connections which generated Commercial revenues of \$2.7 million since the acquisition of Baja.

Operating Expenses

Cost of services and products (excluding Depreciation, amortization and accretion)

Cost of services and products (excluding Depreciation, amortization and accretion) of \$6.7 million were incurred for programming costs and expenses related to the delivery and support of services since the acquisition of Baja.

Selling, general and administrative expenses

Selling, general and administrative expenses of \$5.2 million include legal and consulting costs of \$1.8 million related to the acquisition.

Depreciation, amortization and accretion expense

Depreciation, amortization and accretion expense of \$2.9 million was incurred since the acquisition of Baja on August 1, 2013. Amortization of the acquired customer list and trade name contributed \$1.2 million of expense.

HMS Operations												
Components of Operating Income (Loss)												
												Percentage

Nine Months Ended September 30,		2013	2012	Change	Change
(Dollars in thousands)					
Operating revenues		\$ 115,665	\$ 76,862	\$ 38,803	50 %
Operating expenses					
Cost of services and products (excluding Depreciation, amortization and accretion reported below)		82,517	50,196	32,321	64 %
Selling, general and administrative		29,346	24,268	5,078	21 %
Depreciation, amortization and accretion		17,286	14,272	3,014	21 %
Loss on asset disposals, net		123	105	18	17 %
Total operating expenses		129,272	88,841	40,431	46 %
Total operating income (loss)		\$ (13,607)	\$ (11,979)	\$ (1,628)	(14) %

Operating Revenues

HMS Operating revenues consist primarily of colocation, dedicated hosting, hosted application management and cloud computing services, and sales, installation and management of IT infrastructure hardware solutions.

Operating revenues increased \$38.8 million to \$115.7 million in 2013. An acquisition contributed \$34.7 million of this increase with the remaining increase due to 11% growth in recurring services primarily consisting of colocation, cloud, application management and managed hosting services.

Operating Expenses

Cost of services and products (excluding Depreciation, amortization and accretion)

Cost of services and products increased \$32.3 million to \$82.5 million in 2013 due primarily to \$27.7 million from an acquisition and increases in costs to expand and upgrade customer and technical support to accommodate recurring revenue growth.

Selling, general and administrative expense

45

Table of Contents

Selling, general and administrative expense increased \$5.1 million to \$29.3 million in 2013 due primarily to \$6.7 million from an acquisition.

Depreciation, amortization and accretion expense

Depreciation, amortization and accretion expense increased \$3.0 million to \$17.3 million due to \$2.1 million of additional depreciation on increased capital additions and \$1.5 million of the acquired customer list and trade name amortization from an acquisition.

Table of Contents**Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012****RESULTS OF OPERATIONS — CONSOLIDATED**

Three Months Ended September 30,		2013		2012		Change		Percentage	
(Dollars in thousands, except per share amounts)									
Operating revenues									
	U.S. Cellular	\$	939,236	\$	1,140,357	\$	(201,121)	(18)	%
	TDS Telecom		234,543		220,417		14,126	6	%
	All other (1)		7,201		9,334		(2,133)	(23)	%
	Total operating revenues		1,180,980		1,370,108		(189,128)	(14)	%
Operating expenses									
	U.S. Cellular		982,443		1,092,278		(109,835)	(10)	%
	TDS Telecom		222,391		210,117		12,274	6	%
	All other (1)		9,231		12,207		(2,976)	(24)	%
	Total operating expenses		1,214,065		1,314,602		(100,537)	(8)	%
Operating income (loss)									
	U.S. Cellular		(43,207)		48,079		(91,286)	>(100)	%
	TDS Telecom		12,152		10,300		1,852	18	%
	All other (1)		(2,030)		(2,873)		843	29	%
	Total operating income (loss)		(33,085)		55,506		(88,591)	>(100)	%
Other income and (expenses)									
	Equity in earnings of unconsolidated entities		37,609		25,015		12,594	50	%
	Interest and dividend income		2,507		2,359		148	6	%
	Interest expense		(24,961)		(20,497)		(4,464)	22	%
	Other, net		145		217		(72)	(33)	%
	Total investment and other income (expense)		15,300		7,094		8,206	>100	%
Income (loss) before income taxes									
	Income tax expense (benefit)		(6,731)		22,442		(29,173)	>(100)	%
Net income (loss)									
	Less: Net income (loss) attributable to noncontrolling interests, net of tax		(1,542)		11,041		(12,583)	>(100)	%

Net income (loss) attributable to TDS shareholders		(9,512)		29,117		(38,629)	>(100)	%
Preferred dividend requirement		(12)		(12)		-	-	
Net income (loss) available to common shareholders	\$	(9,524)	\$	29,105	\$	(38,629)	>(100)	%
Basic earnings (loss) per share attributable to								
TDS shareholders	\$	(0.09)	\$	0.27	\$	(0.36)	>(100)	%
								%
Diluted earnings (loss) per share attributable to								
TDS shareholders	\$	(0.09)	\$	0.26	\$	(0.35)	>(100)	%

(1) Consists of Non-Reportable Segment, corporate operations and intercompany eliminations between U.S. Cellular, TDS Telecom, the Non-Reportable Segment and corporate operations.

Operating Revenues and Expenses

See “Results of Operations — U.S. Cellular” and “Results of Operations — TDS Telecom” below for factors that affected consolidated Operating Revenues and Expenses.

Table of Contents**Equity in earnings of unconsolidated entities**

TDS' investment in the LA Partnership contributed \$20.8 million and \$18.3 million to Equity in earnings of unconsolidated entities in 2013 and 2012, respectively. In 2013, TDS' investment in the NY1 & NY2 Partnerships contributed \$9.7 million.

Interest expense

The increase in interest expense was due primarily to the issuance of TDS' 5.875% Senior Notes in November 2012 for \$195.0 million and a decrease in capitalized interest during 2013.

Income tax expense (benefit)

See Note 3 — Income Taxes in the Notes to Consolidated Financial Statements for a discussion of the change in income tax expense (benefit) and the overall effective tax rate on Income (loss) before income taxes.

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) and the noncontrolling shareholders' or partners' share of certain TDS or U.S. Cellular subsidiaries' net income or loss. The impact due to the NY1& NY2 Deconsolidation caused a decrease in the Noncontrolling shareholders' or partners' line item below for the three months ended September 30, 2013.

				Three Months Ended	
				September 30,	
				2013	2012
(Dollars in thousands)					
Net income (loss) attributable to noncontrolling interests, net of tax					
	U.S. Cellular noncontrolling public shareholders'			\$ (1,541)	\$ 5,836
	Noncontrolling shareholders' or partners'			(1)	5,205
				\$ (1,542)	\$ 11,041

Table of Contents**RESULTS OF OPERATIONS — U.S. CELLULAR**

Components of Operating Income (Loss)							
Three Months Ended September 30,	2013		2012		Change		Percentage Change
(Dollars in thousands)							
Retail service	\$	752,316	\$	884,219	\$	(131,903)	(15)%
Inbound roaming		71,997		106,132		(34,135)	(32)%
Other		38,017		46,019		(8,002)	(17)%
Service revenues		862,330		1,036,370		(174,040)	(17)%
Equipment sales		76,906		103,987		(27,081)	(26)%
Total operating revenues		939,236		1,140,357		(201,121)	(18)%
System operations (excluding Depreciation, amortization and accretion reported below)		177,431		249,245		(71,814)	(29)%
Cost of equipment sold		193,392		248,029		(54,637)	(22)%
Selling, general and administrative		410,468		438,526		(28,058)	(6)%
Depreciation, amortization and accretion		200,985		145,151		55,834	38%
Loss on asset disposals, net		1,701		11,262		(9,561)	(85)%
(Gain) loss on sale of business and other exit costs, net		(1,534)		65		(1,599)	>100%
Total operating expenses		982,443		1,092,278		(109,835)	(10)%
Operating income (loss)	\$	(43,207)	\$	48,079	\$	(91,286)	>(100)%

Operating Revenues***Retail service revenues***

Retail service revenues decreased \$131.9 million, or 15%, to \$752.3 million in 2013 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.

Billed ARPU per customer increased to \$50.92 in 2013 compared to \$50.83 in 2012. The net increase resulted primarily from growth in revenues from data products and services offset by declines in voice revenues.

Application of the deferred revenue method of accounting related to loyalty reward points resulted in deferring net revenues of \$10.0 million and \$7.1 million in 2013 and 2012, respectively. These amounts are included in the Customer deposits and deferred revenues in the Consolidated Balance Sheet.

Inbound roaming revenues

Inbound roaming revenues decreased by \$34.1 million, or 32%, to \$72.0 million in 2013 compared to 2012. The decrease was due to lower usage and rates for both data and voice and the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation. The decline in roaming revenues was offset by a decline in roaming expense also due to lower rates.

Other revenues

Other revenues decreased by \$8.0 million, or 17%, to \$38.0 million due primarily to a decrease in ETC revenues. ETC revenues in 2013 were \$23.7 million compared to \$31.1 million in 2012 and decreased due to the phase down of USF support as described in Results of Operations – U.S. Cellular for the nine months ended September 30, 2013.

Equipment sales revenues

Equipment sales revenues decreased by \$27.1 million, or 26%, in 2013 to \$76.9 million driven by a 32% decrease in total devices sold primarily due to the Divestiture Transaction partially offset by a 14% increase in average revenue per device sold.

Table of Contents

Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

Key components of the overall decrease in System operations expenses were as follows:

- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming decreased \$20.6 million, or 31%, due primarily to lower rates. Data roaming usage increased; however, the impact of the increase was more than offset by lower rates for both data and voice and lower voice volume.
- Maintenance, utility and cell site expenses decreased \$28.8 million, or 28%, due primarily to the impacts of the Divestiture Transaction.
- Customer usage expense decreased \$22.4 million, or 29%, driven by impacts of the Divestiture Transaction and decreases in intercarrier charges and certain data costs partially offset by increases due to network costs for 4G LTE.

Cost of equipment sold

Cost of equipment sold decreased in 2013 compared to 2012 due primarily to a 32% decrease in the total number of devices sold for the reason noted above partially offset by an increase of 24% in average cost per device sold due to a shift in the mix of units sold to higher-priced smartphones.

Selling, general and administrative

Key components of the \$28.1 million, or 6%, decrease to \$410.5 million were as follows:

- Selling and marketing expense decreased by \$28.8 million, or 14%, 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 expense was flat in 2013 compared to 2012. Decreases due to corporate cost containment and reduction initiatives were offset by costs associated with launching the new billing system.

Depreciation, amortization and accretion

Depreciation, amortization and accretion increased \$55.8 million, or 38%, in 2013 to \$201.0 million due primarily to the acceleration of depreciation, amortization and accretion in the Divestiture Markets. The impact of the acceleration was \$45.7 million in 2013.

Loss on asset disposals, net

Loss on assets disposals, net decreased \$9.6 million due primarily to higher disposals of certain network equipment in 2012.

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

The net gain in 2013 resulted from continued impacts of the Divestiture Transaction.

Table of Contents

RESULTS OF OPERATIONS — TDS TELECOM						
TDS Telecom						
Components of Operating Income						
Three months ended September 30,			2013	2012	Change	Percentage Change
(Dollars in thousands)						
Operating revenues						
	Wireline revenues		\$ 181,800	\$ 184,066	\$ (2,266)	(1)%
	Cable revenues		14,362	-	14,362	N/M
	HMS revenues		38,727	36,428	2,299	6%
	Intra-company elimination		(346)	(77)	(269)	>100%
	TDS Telecom operating revenues		234,543	220,417	14,126	6%
Operating expenses						
	Wireline expenses		164,065	168,504	(4,439)	(3)%
	Cable expenses		14,825	-	14,825	N/M
	HMS expenses		43,847	41,690	2,157	5%
	Intra-company elimination		(346)	(77)	(269)	>100%
	TDS Telecom operating expenses		222,391	210,117	12,274	6%
	TDS Telecom operating income		\$ 12,152	\$ 10,300	\$ 1,852	18%

Wireline Operations						
Components of Operating Income						
Three months ended September 30,			2013	2012	Change	Percentage Change
(Dollars in thousands)						
Operating revenues						
	Residential		\$ 74,257	\$ 74,434	\$ (177)	-
	Commercial		57,787	57,493	294	1%
	Wholesale		49,756	52,139	(2,383)	(5)%
	Total operating revenues		181,800	184,066	(2,266)	(1)%

Table of Contents

Commercial revenues

Commercial revenues grew slightly to \$57.8 million in 2013 due primarily to the 45% growth in managed IP connections offsetting an 11% decline in average voice connections.

Wholesale revenues

Wholesale revenues decreased \$2.4 million or 5% to \$49.8 million. Network access revenues decreased \$1.6 million in 2013 as a result of changes in support mechanisms and in intercarrier compensation resulting from the Reform Order. Wholesale revenues also declined \$1.0 million due to a 12% reduction in intra-state minutes-of-use. Revenues received through inter-state and intra-state regulatory mechanisms increased \$1.3 million.

Operating Expenses

Cost of services and products (excluding Depreciation, amortization and accretion)

Cost of services and products increased \$0.5 million or 1% to \$68.2 million in 2013. Increased costs associated with the provisioning of IPTV and increased circuit costs were partially offset by decreases in cost of goods sold related to long distance services.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased \$4.4 million or 8% to \$53.3 million in 2013 due primarily to reduced contributions into the Federal USF, reduced bad debts and cost control efforts.

Cable Operations

Table of Contents**RECENT ACCOUNTING PRONOUNCEMENTS**

Recent accounting pronouncements are not expected to have a significant effect on TDS' financial condition or results of operations. See Note 1 – Basis of Presentation in the Notes to the Consolidated Financial Statements for additional information.

FINANCIAL RESOURCES

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, capital expenditures and other factors. The table below and the following discussion in this Financial Resources section summarize TDS' cash flow activities for the nine months ended September 30, 2013 and 2012.

		2013		2012	
(Dollars in thousands)					
Cash flows from (used in):					
	Operating activities	\$	437,900	\$	760,536
	Investing activities		(333,593)		(692,915)
	Financing activities		(133,699)		(41,612)
	Net increase (decrease) in cash and cash equivalents	\$	(29,392)	\$	26,009

The Divestiture Transaction, as described above, resulted in net pre-tax Cash used in operating activities of \$22.7 million and net Cash from investing activities of \$481.1 million during the nine months ended September 30, 2013. Cash flows from operating and investing activities in future periods will be impacted by the Divestiture Transaction.

Cash Flows from Operating Activities

Cash flows from operating activities were \$437.9 million in 2013 and \$760.5 million in 2012. Significant items to note are as follows:

- Net income increased by \$10.7 million. This increase resulted primarily from the gains recognized as a result of the closing of the Divestiture Transaction and the NY1& NY2 Deconsolidation. This was partially offset by a

decrease in Operating revenues, higher cost of equipment sold, and an increase in non-cash expenses, including depreciation expense.

- Net income tax payments of \$137.6 million were recorded in 2013 compared to net income tax refunds of \$62.7 million in 2012. The 2013 tax payments were due primarily to the gain recognized as a result of the closing of the Divestiture Transaction. Federal tax refunds of \$71.4 million were received in 2012 primarily related to a federal net operating loss in 2011 largely attributable to 100% bonus depreciation applicable to qualified capital expenditures. TDS carried back this federal net operating loss to prior tax years and received these refunds in 2012 for carrybacks to 2009 and 2010 tax years.

- Changes in Inventory provided \$11.1 million in 2013 and required \$70.9 million in 2012. This change was due primarily to higher beginning inventory levels at December 31, 2012 relative to December 31, 2011, and lower inventory purchases in 2013 compared to 2012.

- Changes in Accounts receivable required \$216.7 million in 2013 and required \$69.5 million in 2012. Changes in Accounts receivable were driven primarily by billing delays encountered as a result of the conversion to a new U.S. Cellular billing system in the third quarter of 2013, which caused Accounts receivable to increase at September 30, 2013. Given these billing delays and the corresponding increase in Accounts receivable, U.S. Cellular believes it has made an adequate provision for allowance for doubtful accounts at September 30, 2013. However, such provision is an estimate, and U.S. Cellular's actual experience with uncollectible accounts in future periods could materially differ from the amounts provided in the allowance for doubtful accounts at September 30, 2013, and any such difference could have a material adverse impact on future results of operations and cash flow.

- Changes in Accounts payable provided \$33.3 million in 2013 and required \$37.7 million in 2012. Changes in Accounts payable were driven primarily by payment timing differences related to operating expenses, capital purchases and device purchases.

Cash Flows from Investing Activities

Table of Contents

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.

Capital expenditures (i.e., additions to property, plant and equipment and system development expenditures) totaled \$637.4 million in 2013 and \$697.0 million in 2012. Cash used for additions to property, plant and equipment is reported in the Consolidated Statement of Cash Flows and excludes amounts accrued in Accounts receivable and Accounts payable for capital expenditures at September 30, 2013 and includes amounts received and/or paid in the current period that were accrued at December 31, 2012. Cash used for additions to property, plant and equipment totaled \$631.4 million in 2013 and \$730.9 million in 2012. These expenditures were made to provide for customer and usage growth (in recent periods, particularly with respect to data usage growth), to upgrade service and to take advantage of service-enhancing and cost-reducing technological developments in order to maintain competitive services.

- U.S. Cellular's capital expenditures totaled \$529.4 million in 2013 and \$583.6 million in 2012 representing expenditures made to construct new cell sites, build out 4G LTE networks in certain markets, increase capacity in existing cell sites and switches, develop new and enhance existing office systems such as the new Billing and Operational Support System ("B/OSS") and customer relationship management platforms, and construct new and remodel existing retail stores. The decrease in capital expenditures on a year-over-year basis is due primarily to the timing of spending for network operations equipment.

- TDS Telecom's capital expenditures totaled \$102.6 million in 2013 and \$122.1 million in 2012. Capital expenditures for Wireline operations totaled \$94.0 million in 2013 and \$109.1 million in 2012 representing expenditures to upgrade plant and equipment to provide enhanced services. Capital expenditures for Cable operations totaled \$1.4 million in 2013. Capital expenditures for HMS operations totaled \$7.2 million in 2013 and \$13.0 million in 2012 representing expenditures to expand data center facilities including the purchase of IT-related equipment to deliver products and services.

Cash payments for acquisitions for the nine months ended September 30, 2013 and 2012 were as follows:						
Cash Payment for Acquisitions		2013			2012	
(Dollars in thousands)						
U.S. Cellular licenses	\$	16,540		\$	57,957	
TDS Telecom HMS business		-			39,566	
TDS Telecom cable business		263,843			-	
Total	\$	280,383		\$	97,523	

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 for the nine months ended September 30, 2013 and 2012 were as follows:					
Cash Received from Divestitures	2013		2012		
(Dollars in thousands)					
U.S. Cellular licenses	\$	-	\$		-
U.S. Cellular businesses		484,300			49,932
TDS Telecom wireline business		-			250
Total	\$	484,300	\$		50,182

U.S. Cellular received \$480.0 million in cash at the close of the Divestiture Transaction in May 2013. In addition, U.S. Cellular received \$1.1 million in reimbursements for certain network decommissioning costs, network site lease rent and termination costs, network access termination costs, and employee termination benefits for specified engineering employees (the “Sprint Cost Reimbursement”) in the nine months ended September 30, 2013.

On October 4, 2013, U.S. Cellular sold the majority of its Mississippi Valley non-operating market license (“unbuilt license”) for \$308.0 million. The sale will result in a \$252.2 million gain and a \$96.0 million current tax expense, which will be recorded in the fourth quarter of 2013.

In addition, on August 14, 2013, U.S. Cellular entered into a definitive agreement to sell the majority of its St. Louis area unbuilt license for \$92.3 million. This transaction will result in an estimated gain of \$76.2 million and an estimated current tax expense of \$28.5 million. This transaction is subject to regulatory approval and is expected to close by the end of 2013.

Table of Contents

In 2012, TDS invested \$45.0 million in U.S. Treasury Notes with maturities of greater than three months from the acquisition date. TDS realized proceeds of \$80.0 million and \$143.4 million in 2013 and 2012, respectively, related to the maturities of its investments in U.S. Treasury Notes, corporate notes, and certificates of deposit.

Cash Flows from Financing Activities

Cash flows from financing activities primarily reflect repayments of and proceeds from short-term and long-term debt balances, 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 2013, TDS repurchased Common Shares at an aggregate cost of \$5.8 million. TDS did not repurchase any Common Shares in 2012. Payments for repurchases of U.S. Cellular Common Shares required \$18.5 million in 2013. U.S. Cellular did not repurchase any Common Shares in 2012. See Note 10 — Common Share Repurchases in the Notes to Consolidated Financial Statements for additional information related to these transactions.

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

Free Cash Flow

The following table presents Free cash flow. Free cash flow is defined as Cash flows from operating activities less Cash used for additions to property, plant and equipment. Free cash flow is a non-GAAP financial measure. TDS believes that Free cash flow as reported by TDS may be useful to investors and other users of its financial information in evaluating the amount of cash generated by business operations, after Cash used for additions to property, plant and equipment.

Nine Months Ended September 30,		2013		2012
(Dollars in thousands)				
Cash flows from operating activities	\$	437,900	\$	760,536
Cash used for additions to property, plant and equipment		(631,370)		(730,897)

Free cash flow		\$	(193,470)		\$	29,639
See Cash Flows from Operating Activities and Cash Flows from Investing Activities for additional information related to the components of Free cash flow.						

LIQUIDITY AND CAPITAL RESOURCES

TDS believes that existing cash and investment balances, funds available under its revolving credit facilities and expected Cash flows from operating and investing activities provide substantial liquidity and financial flexibility for TDS to meet its normal financing needs (including working capital, construction and development expenditures and share repurchases under approved programs) for the foreseeable future. In addition, TDS and its subsidiaries may access public and private capital markets to help meet their financing needs.

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 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 construction, development, acquisition or share repurchase programs. Such reductions could have a material adverse effect on TDS' business, financial condition or results of operations.

The following table summarizes TDS' and U.S. Cellular's cash and investments as of September 30, 2013.						
	TDS			U.S. Cellular (1)		
(Dollars in thousands)						
Cash and cash equivalents	\$	711,089		\$	183,101	
Short-term investments	\$	45,162		\$	45,162	
Long-term investments	\$	40,099		\$	40,099	
(1)	Also included as a component of the TDS column.					

Cash and Cash Equivalents

Table of Contents

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 September 30, 2013, 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.

Short-term and Long-term Investments

Short-term and Long-term investments consist primarily of U.S. Treasury Notes which are designated as held-to-maturity investments and are 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. See Note 2 — Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information on Short-term and Long-term investments.

Revolving Credit Facilities

TDS and U.S. Cellular have revolving credit facilities available for general corporate purposes.

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 facility. At September 30, 2013, no U.S. Cellular debt was subordinated pursuant to this subordination agreement.

TDS' and U.S. Cellular's interest cost on their revolving credit facilities is subject to increase if their current credit ratings from nationally recognized credit rating agencies are lowered, and is subject to decrease if the ratings are raised. The credit facilities would not cease to be available nor would the maturity date accelerate solely as a result of a downgrade in TDS' or U.S. Cellular's credit rating. However, a downgrade in TDS' or U.S. Cellular's credit rating could adversely affect their ability to renew the credit facilities or obtain access to other credit facilities in the future.

As of September 30, 2013, TDS' and U.S. Cellular's senior debt credit ratings from nationally recognized credit rating agencies remained at investment grade.

The following table summarizes the terms of such revolving credit facilities as of September 30, 2013:						
(Dollars in millions)		TDS		U.S. Cellular		
Maximum borrowing capacity	\$	400.0		\$	300.0	
Letters of credit outstanding	\$	0.3		\$	17.6	
Amount borrowed	\$	-		\$	-	
Amount available for use	\$	399.7		\$	282.4	
Agreement date		December 2010			December 2010	
Maturity date		December 2017			December 2017	

In June 2013, U.S. Cellular provided \$17.4 million in letters of credit to the FCC in connection with U.S. Cellular's winning bids in Auction 901. See FCC Reform Order – Auction 901 above in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 September 30, 2013 with all of the covenants and requirements set forth in their revolving credit facilities. TDS also has certain other non-material credit facilities from time to time.

Long-Term Financing

There were no material changes to Long-Term Financing as disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in TDS' Form 10-K for the year ended December 31, 2012.

TDS and its subsidiaries' 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. TDS believes that it and its subsidiaries were in compliance as of September 30, 2013 with all 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.

Table of Contents

The long-term debt principal payments due for the remainder of 2013 and the next four years represent less than 1% of the total long-term debt obligation at September 30, 2013. Refer to Market Risk — Long-Term Debt in TDS' Form 10-K for the year ended December 31, 2012 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.

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; 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 up to an aggregate principal amount of \$500 million. 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.

Capital Expenditures

U.S. Cellular's capital expenditures for 2013 are expected to be approximately \$735 million. These expenditures are expected to be for the following general purposes:

- Expand and enhance U.S. Cellular's network coverage in its service areas, including providing additional capacity to accommodate increased network usage, principally data usage, by current customers;
- Continue to deploy 4G LTE technology in certain markets;
- Enhance U.S. Cellular's retail store network;
- Develop and enhance office systems; and

- Develop new billing and other customer management related systems and platforms.

TDS Telecom's capital expenditures for 2013 are expected to be approximately \$165 million. These expenditures are expected to be for the following general purposes:

- Process and productivity initiatives;
- Increased network and product capabilities for broadband services;
- Expansion of IPTV;
- Success-based spending to sustain managedIP, IPTV and HMS growth;
- Fund its share for projects approved under the Recovery Act; and
- Plant upgrades and success-based spending at Baja.

TDS plans to finance its capital expenditures program for 2013 using primarily Cash flows from operating activities and as necessary, existing cash balances and short-term investments.

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 also 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 5 — Acquisitions, Divestitures and Exchanges and Note 7 — Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information related to significant transactions.

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 9 — Variable Interest Entities (VIEs) in the Notes to Consolidated Financial

Table of Contents

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.

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 2013 and 2012, see Note 10 — Common Share Repurchases in the Notes to Consolidated Financial Statements and Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Contractual and Other Obligations

There were no material changes outside the ordinary course of business between December 31, 2012 and September 30, 2013 to the Contractual and Other Obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in TDS' Form 10-K for the year ended December 31, 2012.

Agreements

As previously disclosed, on August 17, 2010, U.S. Cellular and Amdocs Software Systems Limited ("Amdocs") entered into a Software License and Maintenance Agreement ("SLMA") and a Master Service Agreement ("MSA") (collectively, the "Amdocs Agreements") to develop a Billing and Operational Support System ("B/OSS"). In July 2013, U.S. Cellular implemented B/OSS, pursuant to an updated Statement of Work dated June 29, 2012. Total payments to Amdocs related to this implementation are estimated to be approximately \$183.5 million (subject to certain potential adjustments) over the period from commencement of the SLMA through the first half of 2014. As of September 30, 2013, \$133.3 million had been paid to Amdocs.

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.

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 and TDS' Application of Critical Accounting Policies and Estimates is discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are included in TDS' Form 10-K for the year ended December 31, 2012. There were no material changes to TDS' application of critical accounting policies and estimates during the three and nine months ended September 30, 2013.

Goodwill and Licenses Impairment Assessment

TDS has significant amounts recorded as Licenses and Goodwill in its Consolidated Balance Sheet. Licenses and Goodwill must be assessed for impairment annually or more frequently if events or changes in circumstances indicate that such assets might be impaired. TDS performs annual impairment testing of Licenses and Goodwill, as required by GAAP, in the fourth quarter of its fiscal year, based on fair values and net carrying values determined as of November 1.

TDS Telecom has recorded Goodwill as a result of the acquisition of ILEC, HMS and Cable companies. For purposes of Goodwill impairment testing, ILEC and Cable both represent single reporting units. Prior to the third quarter of 2013, for purposes of Goodwill impairment testing, HMS represented three separate reporting units.

During the third quarter of 2013, due to continued competitive pressures and negative secular and regulatory trends in the ILEC industry, TDS determined that an interim impairment test of TDS Telecom's ILEC Goodwill was required. TDS performed the Step 1 Goodwill impairment test, as defined by GAAP, as of August 1, 2013, and determined that the fair value of the ILEC reporting unit exceeded its carrying value, and accordingly no Goodwill impairment resulted.

Prior to the third quarter of 2013, HMS was comprised of three reporting units: OneNeck IT Services Corporation ("OneNeck"), TEAM Technologies, LLC/VISI Incorporated ("TEAM/VISI") and Vital Support Systems, LLC ("Vital"). Due to changes in the management of the HMS operations and related changes in internal financial reporting that culminated in the third quarter of 2013, the three separate HMS reporting units were combined into one HMS reporting unit. This change in reporting units required TDS to

Table of Contents

perform an interim impairment test of the Goodwill in the HMS reporting unit(s) in the third quarter of 2013. TDS performed the Step 1 Goodwill impairment test as of August 1, 2013 for the three historical HMS reporting units of OneNeck, TEAM/VISI, and Vital and the newly combined HMS reporting unit. In all four of these HMS-related Step 1 Goodwill impairment tests, TDS determined that the fair value of each of the reporting units exceeded its respective carrying value, and accordingly, no Goodwill impairment resulted. Future Goodwill impairment tests will only be performed on the combined HMS reporting unit.

The discounted cash flow approach and publicly-traded guideline company method were used to value the ILEC and HMS reporting units. 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 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).

The publicly-traded guideline company method develops an indication of fair value by calculating average market pricing multiples for selected publicly-traded market participant companies using multiples of: Revenue; Earnings before Interest, Taxes, and Depreciation and Amortization; and Earnings before Interest and Taxes. The developed multiples were applied to applicable financial measures of the respective reporting unit to determine fair value. The discounted cash flow approach and publicly-traded guideline 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 ILEC and HMS reporting units as of August 1, 2013 using the discounted cash flow approach. The ILEC and HMS averages below are based on five and ten year projection periods, respectively. 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.

	ILEC		OneNeck		TEAM/VISI		Vital		Combined HMS	
Key assumptions										
Revenue growth rate	(0.4)	%	10.7	%	18.8	%	6.6	%	10.4	%
Terminal revenue growth rate	0.0	%	3.0	%	3.0	%	1.5	%	2.5	%
Discount rate	7.5	%	13.0	%	12.5	%	13.0	%	12.5	%
Capital expenditures as a percentage										
of revenue	14.7	%	13.0	%	26.3	%	0.5	%	11.2	%

Revenue growth rates

The negative average expected growth rate for the ILEC reporting unit is due primarily to declines in voice and data market share and declines in regulatory and wholesale revenues.

The mix of products and services in each HMS reporting unit is diverse and each offers one or more of the following services: colocation, dedicated hosting, hosted application management, cloud computing services and planning, engineering, procurement, installation, and sales and management of IT infrastructure hardware solutions. The following sources were used to generate projected revenues:

- Market participant growth rates
- Internally generated forecasts, which in addition to market participant growth rates, also considered:
 - Current and projected staffing of the sales teams and their reasonable potential for sales quota attainment
 - Observed customer demand
 - Market and competitive knowledge

TDS' internal projections and peer growth rates associated with the services principally offered by OneNeck and TEAM/VISI have higher growth rates than the products and services principally offered by Vital, which generates a substantial portion of their revenue from the sales of products and solutions related services, as depicted in the following table:

HMS reporting unit	Primary products
OneNeck	Hosted application management and managed hosting services
TEAM/VISI	Colocation, managed services, hosted services, and cloud computing
Vital	Technology solutions to businesses which includes the planning, design, procurement, installation, sales and management of business-critical IT components
Combined HMS	All products and services offered in the HMS segment

Table of Contents

There are risks that could negatively impact the projected revenue growth rates, including, but not limited to:

- Sales process execution – including the ability to attract and retain qualified sales professionals.
- Competition – competitors may gain advantages over TDS Telecom’s HMS business, and may have the ability to offer product and service offerings which TDS Telecom is not able to offer, or offer competitively.
- Operations – TDS Telecom could experience operational difficulties including service disruptions, security breaches, or other negative events that could harm the reputation of its HMS business and its future revenue prospects.

Discount rates

The discount rate of each reporting unit was computed by calculating the weighted average cost of capital (“WACC”) of market participants with businesses reasonably comparable to each respective reporting unit. The following is a summary of the key components of the calculation:

- Each reporting unit (ILEC, OneNeck, TEAM/VISI, Vital, and Combined HMS) used a separate set of market participants based upon the primary products offered by each respective reporting unit.
- The percentage of debt and equity in each market participant’s capital structure was then computed. TDS then selected a capital allocation between debt and equity reflective of the corresponding market participant set. These relative debt and equity capital allocation percentages were then applied to the estimated after-tax cost of debt and estimated cost of equity of the market participants in each reporting unit to arrive at an estimated WACC of market participants, which was then used as the discount rate for each respective reporting unit.

The discount rate is dependent upon the cost of capital of other industry market participants. 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, if market participants weight more of their capital structure towards equity (vs. debt), or other elements affecting the estimated cost of equity increase.

The WACC calculated for the ILEC reporting unit market participants was lower than the WACC calculated for the HMS reporting units as a result of the ILEC market participants having capital structures that are more heavily weighted toward debt (vs. higher cost equity) relative to the HMS market participants. ILEC market participants are more mature, capital intensive businesses while HMS market participants are newer, less capital intensive businesses. As a result, ILEC market participants generally have a higher ratio of debt relative to equity in their capital structures as compared to HMS market participants.

Capital expenditures as a percentage of revenue

Capital expenditures for the ILEC reporting unit primarily consist of upgrades to plant and equipment in the IPTV markets, general support and maintenance, IT infrastructure and the completion of broadband stimulus projects. 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.

Capital expenditures for HMS reporting unit(s) primarily consist of buildings and improvements related to data center construction, and information technology hardware. To the extent building capacity needs increase at a rate higher than expected and disproportionate to forecasted future revenues, this could negatively impact future cash flows. Further, should the cost of IT hardware increase at levels higher than expected, this could also cause future capital expenditures to exceed the amounts forecasted.

Results

The following represents the Goodwill balance of the reporting units tested for impairment on an interim basis as of August 1, 2013, and the result of the Step 1 Goodwill impairment test.

Reporting unit	Goodwill balance at August 1, 2013 (in thousands)	Percentage by which the estimated fair value of the reporting unit exceeded its carrying value
ILEC	\$ 420,458	26.4 %
OneNeck (acquired 2011)	\$ 68,107	7.5 %
TEAM/VISI (acquired 2010)	\$ 15,156	16.4 %
Vital (acquired 2012)	\$ 20,364	15.5 %
Combined HMS	\$ 103,627	16.0 %

As of August 1, 2013, the fair value of the ILEC reporting unit exceeded its carrying value; therefore, no impairment of Goodwill existed. Given that the fair value of the reporting unit exceeds its respective carrying value, provided all other assumptions remained the same, the discount rate would have to increase to 9.9% for the discounted cash flow approach to yield an estimated fair value of the ILEC reporting unit that equals its carrying value at August 1, 2013. Further, provided all other assumptions remained the same,

Table of Contents

the terminal revenue growth rate assumption would need to decrease to negative 3.3%, for the discounted cash flow approach to yield an estimate of fair value equal to the carrying value of the ILEC reporting unit at August 1, 2013.

As of August 1, 2013, the fair values of the HMS reporting units exceeded their respective carrying values; therefore, no impairment of Goodwill existed. Given that the fair values of the respective reporting units exceed their respective carrying values, provided all other assumptions remained the same, the discount rate would have to increase to a range of 13.0% (for TEAM/VISI) to 14.3% (for Vital) for the discounted cash flow approach to yield estimated fair values of the HMS reporting units that equal their respective carrying values at August 1, 2013. Further, provided all other assumptions remained the same, the terminal revenue growth rate assumptions would need to decrease to amounts ranging from positive 2.0% (for TEAM/VISI) to negative 3.2% (for Vital), for the discounted cash flow approach to yield estimates of fair value equal to the carrying values of the respective HMS reporting units at August 1, 2013.

As of August 1, 2013, the fair value of the combined HMS reporting unit exceeded its carrying value; therefore, no impairment of Goodwill existed. Given that the fair value of the reporting unit exceeds its respective carrying value, provided all other assumptions remained the same, the discount rate would have to increase to 13.4% for the discounted cash flow approach to yield an estimated fair value of the HMS reporting unit that equals its carrying value at August 1, 2013. Further, provided all other assumptions remained the same, the terminal revenue growth rate assumption would need to decrease to 0.4%, for the discounted cash flow approach to yield an estimate of fair value equal to the carrying value of the combined HMS reporting unit at August 1, 2013.

Table of Contents

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

SAFE HARBOR CAUTIONARY STATEMENT

This Form 10-Q, including exhibits, contains statements that are not based on historical facts and represent forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, that address activities, events or developments that TDS intends, expects, projects, believes, estimates, plans or anticipates will or may occur in the future are forward-looking statements. The words “believes,” “anticipates,” “estimates,” “expects,” “plans,” “intends,” “projects” and similar expressions intended to identify these forward-looking statements, but are not the exclusive means of identifying them. 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 those set forth below, as more fully described under “Risk Factors” in TDS’ Form 10-K for the year ended December 31, 2012. However, such factors are not necessarily all of the important factors that could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the forward-looking statements contained in this document. Other unknown or unpredictable factors also could have material adverse effects on future results, performance or achievements. TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. You should carefully consider the Risk Factors in TDS’ Form 10-K for the year ended December 31, 2012, the following factors and other information contained in, or incorporated by reference into, this Form 10-Q to understand the material risks relating to TDS’ business.

- *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.*
- *A failure by TDS’ service offerings to meet customer expectations could limit TDS’ ability to attract and retain customers and could have an adverse effect on TDS’ business, financial condition or results of operations.*
- *A failure by TDS to produce and deliver accurate and timely billing statements to customers could have an adverse effect on TDS’ business, financial condition or results of operations.*

- *TDS' system infrastructure may not be capable of supporting changes in technologies and services expected by customers, which could result in lost customers and revenues.*
- *An inability to obtain or maintain roaming arrangements with other carriers on terms that are acceptable to TDS could have an adverse effect on TDS' business, financial condition or results of operations.*
- *TDS currently receives a significant amount of roaming revenues from its wireless business. Further consolidation within the wireless industry, continued network build-outs by other wireless carriers and/or the inability to negotiate 4G LTE roaming agreements with other operators could cause roaming revenues to decline from current levels, which would 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.*
- *Changes in Universal Service Fund ("USF") funding and/or intercarrier compensation could have an adverse impact on TDS' business, financial condition or results of operations.*
- *An inability to attract and/or retain highly competent management, technical, sales and other personnel 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.*

Table of Contents

- *TDS' lower scale relative to larger competitors could adversely affect its business, financial condition or results of operations.*
- *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.*
- *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.*
- *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 license costs, goodwill and/or physical assets.*
- *TDS enters into commitments to purchase devices from vendors, the terms of which may span multiple years, including an agreement with Apple to purchase Apple iPhone products over a three-year period beginning in November 2013. If TDS is unable to sell such committed devices at the rates and prices it projects, such differences could have a material adverse impact on TDS' business, financial condition or results of operations.*
- *Costs, integration problems or other factors associated with acquisitions/divestitures of properties or licenses and/or expansion of TDS' businesses could have an adverse effect on TDS' business, financial condition or results of operations.*
- *A significant portion of TDS' wireless revenues is derived from customers who buy services through independent agents who market TDS' services on a commission basis. If TDS' relationships with these agents are*

seriously harmed, its business, financial condition or results of operations could be adversely affected.

- *TDS' investments in technologies which are unproven 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.*
- *Financial difficulties (including bankruptcy proceedings) or other operational difficulties of TDS' key suppliers, termination or impairment of TDS' relationships with such suppliers, or a failure by TDS to manage its supply chain effectively could result in delays or termination of TDS' receipt of required equipment or services, or could result in excess quantities of required equipment or services, any of which 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, including breaches of network or information technology security, could have an adverse effect on TDS' business, financial condition or results of operations.*
- *Wars, conflicts, hostilities and/or terrorist attacks or equipment failures, power outages, natural disasters or other events 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.*
- *Identification of errors in financial information or disclosures could require amendments to or restatements of financial information or disclosures included in this or prior filings with the Securities and Exchange Commission ("SEC"). Such amendments or restatements and related matters, including resulting delays in filing periodic reports with the SEC, could have an adverse effect on TDS' business, financial condition or results of operations.*

Table of Contents

- *The existence of material weaknesses in the effectiveness of internal control over financial reporting could result in inaccurate financial statements or other disclosures or failure to prevent fraud, which could have an adverse effect on TDS' business, financial condition or results of operations.*
- *Changes in facts or circumstances, including new or additional information that affects the calculation of potential liabilities for contingent obligations under guarantees, indemnities, claims, litigation or otherwise, could require TDS to record charges in excess of amounts accrued in the financial statements, if any, 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 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.*

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

Refer to the disclosure under Market Risk in TDS' Form 10-K for the year ended December 31, 2012 for additional information, including information regarding required principal payments and the weighted average interest rates related to TDS' Long-term debt. There have been no material changes to such information since December 31, 2012.

See Note 2 — Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information related to the fair value of TDS' Long-term debt as of September 30, 2013.

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

TDS maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the Securities and Exchange Commission’s (“SEC”) rules and forms, and that such information is accumulated and communicated to TDS’ management, including its principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rule 13a-15(b), TDS carried out an evaluation, under the supervision and with the participation of management, including its principal executive officer and principal financial officer, of the effectiveness of the design and operation of TDS’ disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, TDS’ principal executive officer and principal financial officer concluded that TDS’ disclosure controls and procedures were effective as of September 30, 2013, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

Internal controls over financial reporting are updated as necessary to accommodate modifications to our business processes and accounting procedures. During the third quarter of 2013, U.S. Cellular completed the migration of its customers to a new billing and operational support system. There have been no other changes in TDS’ internal control over financial reporting during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect TDS’ internal control over financial reporting.

Table of Contents

Part II. Other Information

Item 1. 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.

Item 1A. Risk Factors.

In addition to the information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in TDS’ Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect TDS’ business, financial condition or future results. The risks described in this Form 10-Q and the Form 10-K for the year ended December 31, 2012, may not be the only risks that could affect TDS. Additional unidentified or unrecognized risks and uncertainties could materially adversely affect TDS’ business, financial condition and/or operating results. In addition, you are referred to the above Management’s Discussion and Analysis of Financial Condition and Results of Operations for disclosures of certain developments that have occurred since TDS filed its Form 10-K for the year ended December 31, 2012. Subject to the foregoing, TDS has not identified for disclosure any material changes to the risk factors as previously disclosed in TDS’ Annual Report on Form 10-K for the year ended December 31, 2012, except that the following is added to the Risk Factors:

A failure by TDS to produce and deliver accurate and timely billing statements to customers could have an adverse effect on TDS’ business, financial condition or results of operations.

In the third quarter of 2013, U.S. Cellular completed the migration of its customers to a new Billing and Operational Support System (“B/OSS”) which includes a new point-of-sale system and consolidates billing on one platform. This conversion resulted in billing delays. In addition, intermittent system outages and delayed system response times negatively impacted customer service and sales operations at certain times. Existing and potential future operational problems associated with the conversion to the new billing system could have adverse effects on customer satisfaction, customer service, customer attrition, gross customer additions, uncollectible customer accounts receivable, or operating expenses. All of these factors could have a material adverse effect on TDS’ results of

operations or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On August 2, 2013, the Board of Directors of TDS authorized a \$250 million stock repurchase program for TDS Common Shares. Depending on market conditions, such shares may be repurchased in compliance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), pursuant to Rule 10b5-1 under the Exchange Act, or pursuant to accelerated share repurchase arrangements, prepaid share repurchases, private transactions or as otherwise authorized. This authorization does not have an expiration date.

In 2012, TDS had a prior share repurchase authorization for \$250 million that expired November 19, 2012.

The following table provides certain information with respect to all purchases made by or on behalf of TDS, and any open market purchases made by any "affiliated purchaser" (as defined by the SEC) of TDS, of TDS Common Shares during the quarter covered by this Form 10-Q.

Table of Contents

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 – 31, 2013	-	\$ -	-	\$ -
August 1 – 31, 2013	99,447	28.58	99,447	247,158,087
September 1 – 30, 2013	105,101	28.27	105,101	244,186,658
Total for or as of the end of the quarter ended September 30, 2013	204,548	\$ 28.42	204,548	\$ 244,186,658

The following is additional information with respect to the Common Share authorization:

- i. The date the program was announced was August 2, 2013 by Form 8-K.
- ii. The amount approved was up to \$250 million in aggregate purchase price of TDS Common Shares.
- iii. The program does not have an expiration date.
- iv. TDS did not determine to terminate the foregoing Common Share repurchase program, or cease making further purchases thereunder, during the third quarter of 2013.

Table of Contents

Item 5. Other Information.

The following information is being provided to update prior disclosures made pursuant to the requirements of Form 8-K, Item 2.03 — Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of a Registrant.

Neither TDS nor U.S. Cellular borrowed or repaid any amounts under their revolving credit facilities in the third quarter of 2013 and had no borrowings outstanding under their revolving credit facilities as of September 30, 2013.

A description of TDS' revolving credit facility is included under Item 1.01 in TDS' Current Report on Form 8-K dated December 17, 2010 and is incorporated by reference herein.

A description of U.S. Cellular's revolving credit facility is included under Item 1.01 in U.S. Cellular's Current Report on Form 8-K dated December 17, 2010 and is incorporated by reference herein.

Table of Contents

Item 6. Exhibits.

Exhibit 3.1 — Restated Bylaws of TDS are hereby incorporated by reference to Exhibit 3.1 to TDS' Current Report on Form 8-K dated July 19, 2013.

Exhibit 4.1 — Restated Bylaws of TDS are hereby incorporated to Exhibit 3.1.

Exhibit 4.2 — Indenture for Subordinated Debt Securities between TDS and The Bank of New York Mellon Trust Company, N.A. ("BNY") is hereby incorporated by reference to Exhibit 4.1 to TDS' Current Report on Form 8-K dated September 16, 2013.

Exhibit 4.3 — Indenture for Senior Debt Securities between U.S. Cellular and BNY dated as of June 1, 2002 is hereby incorporated by reference to Exhibit 4.2 to U.S. Cellular's Registration Statement on Form S-3 dated May 31, 2013 (File No. 333-188971).

Exhibit 4.4 — Indenture for Subordinated Debt Securities between U.S. Cellular and BNY is hereby incorporated by reference to Exhibit 4.1 to U.S. Cellular's Current Report on Form 8-K dated September 16, 2013.

Exhibit 10.1 — TDS 2013 Officer Bonus Program is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K dated March 6, 2013.

Exhibit 10.2 — TDS Restated Compensation Plan for Non-Employee Directors is hereby incorporated by reference to Exhibit A to the TDS Notice of Annual Meeting of Shareholders and Proxy Statement dated April 19, 2013.

Exhibit 10.3 — TDS Form of Corporate Officer Long-Term Incentive Plan Stock Option Award Agreement is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K dated May 10, 2013.

Exhibit 10.4 — TDS Form of Corporate Officer Long-Term Incentive Plan Restricted Stock Unit Award Agreement is hereby incorporated by reference to Exhibit 10.2 to TDS' Current Report on Form 8-K dated May 10, 2013.

Exhibit 10.5 — U.S. Cellular Form of Long-Term Incentive Plan Stock Option Award Agreement for officers is hereby incorporated by reference to Exhibit 10.3 to U.S. Cellular's Current Report on Form 8-K dated May 14, 2013.

Exhibit 10.6 — U.S. Cellular Form of Long-Term Incentive Plan Restricted Stock Unit Award Agreement for officers is hereby incorporated by reference to Exhibit 10.4 to U.S. Cellular's Current Report on Form 8-K dated May 14, 2013.

Exhibit 10.7 — U.S. Cellular Form of Long-Term Incentive Plan Executive Deferred Compensation Agreement — Phantom Stock Account for officers is hereby incorporated by reference to Exhibit 10.5 to U.S. Cellular's Current Report on Form 8-K dated May 14, 2013.

Exhibit 10.8 — U.S. Cellular 2013 Officer Annual Incentive Plan is hereby incorporated by reference to Exhibit 10.1 to U.S. Cellular's Current Report on Form 8-K dated July 22, 2013.

Exhibit 10.9 — Letter Agreement dated July 25, 2013 between U.S. Cellular and Kenneth R. Meyers is hereby incorporated by reference to Exhibit 10.1 to U.S. Cellular's Current Report on Form 8-K dated July 25, 2013

Exhibit 11 — Statement regarding computation of per share earnings is included herein as Note 4 — Earnings Per Share in the Notes to Consolidated Financial Statements.

Exhibit 12 — Statement regarding computation of ratio of earnings to fixed charges.

Exhibit 31.1 — Principal executive officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 31.2 — Principal financial officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 32.1 — Principal executive officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 32.2 — Principal financial officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 101.INS — XBRL Instance Document

Exhibit 101.SCH — XBRL Taxonomy Extension Schema Document

Exhibit 101.PRE — XBRL Taxonomy Presentation Linkbase Document

Table of Contents

Exhibit 101.CAL — XBRL Taxonomy Calculation Linkbase Document

Exhibit 101.LAB — XBRL Taxonomy Label Linkbase Document

Exhibit 101.DEF — XBRL Taxonomy Extension Definition Linkbase Document

The foregoing exhibits include only the exhibits that relate specifically to this Form 10-Q or that supplement the exhibits identified in TDS' Form 10-K for the year ended December 31, 2012. Reference is made to TDS' Form 10-K for the year ended December 31, 2012 for a complete list of exhibits, which are incorporated herein except to the extent supplemented or superseded above.

Table of ContentsSIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		TELEPHONE AND DATA SYSTEMS, INC.	
		(Registrant)	
Date:	November 1, 2013	/s/ LeRoy T. Carlson, Jr.	
		LeRoy T. Carlson, Jr., President and Chief Executive Officer (principal executive officer)	
Date:	November 1, 2013	/s/ Douglas D. Shuma	
		Douglas D. Shuma, Senior Vice President and Controller (principal financial officer and principal accounting officer)	

