

TELEPHONE & DATA SYSTEMS INC /DE/  
 Form 10-Q  
 May 02, 2014

<b>UNITED STATES</b>																	
<b>SECURITIES AND EXCHANGE COMMISSION</b>																	
<b>Washington, D.C. 20549</b>																	
<b>FORM 10-Q</b>																	
<b>(Mark One)</b>																	
<input checked="" type="checkbox"/>	<b>QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934</b>																
<b>For the quarterly period ended March 31, 2014</b>																	
<b>OR</b>																	
<b>TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934</b>																	
<b>For the transition period from</b> _____ <b>to</b> _____																	
<b>Commission file number 001-14157</b>																	
<b>TELEPHONE AND DATA SYSTEMS, INC.</b>																	
(Exact name of Registrant as specified in its charter)																	
<b>Delaware</b>									<b>36-2669023</b>								
(State or other jurisdiction of incorporation or organization)									(IRS Employer Identification No.)								
<b><u>30 North LaSalle Street, Suite 4000, Chicago, Illinois 60602</u></b>																	
(Address of principal executive offices) (Zip code)																	
Registrant's telephone number, including area code: (312) 630-1900																	
<b>Indicate by check mark</b>																<b>Yes</b>	<b>No</b>
• 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	

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class											Outstanding at March 31, 2014						
Common Shares, \$0.01 par value											101,573,846 Shares						
Series A Common Shares, \$0.01 par value											7,175,948 Shares						

<b>Telephone and Data Systems, Inc.</b>			
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<b>For the Quarterly Period Ended March 31, 2014</b>			
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<b>Item 1. Financial Statements</b>					
<b>Telephone and Data Systems, Inc.</b>					
<b><u>Consolidated Statement of Operations</u></b>					
<b>(Unaudited)</b>					
<b>Three Months Ended</b>					
<b>March 31,</b>					
<b>(Dollars and shares in thousands, except per share amounts)</b>			<b>2014</b>		<b>2013</b>
<b>Operating revenues</b>					
	Service		\$ 1,080,242		\$ 1,198,902
	Equipment and product sales		115,720		109,671
	Total operating revenues		1,195,962		1,308,573
<b>Operating expenses</b>					
	Cost of services (excluding Depreciation, amortization and accretion reported below)		275,958		299,127
	Cost of equipment and products		306,647		260,765
	Selling, general and administrative		463,669		486,903
	Depreciation, amortization and accretion		224,919		242,077
	(Gain) loss on asset disposals, net		2,430		5,616
	(Gain) loss on sale of business and other exit costs, net		(6,900)		6,931
	(Gain) loss on license sales and exchanges		(91,446)		-
	Total operating expenses		1,175,277		1,301,419
<b>Operating income</b>			20,685		7,154
<b>Investment and other income (expense)</b>					
	Equity in earnings of unconsolidated entities		37,327		27,089
	Interest and dividend income		2,486		1,578
	Interest expense		(28,707)		(24,498)
	Other, net		160		(154)
	Total investment and other income		11,266		4,015
<b>Income before income taxes</b>			31,951		11,169
	Income tax expense		11,657		4,180
<b>Net income</b>			20,294		6,989

Less: Net income attributable to noncontrolling interests, net of tax		2,040			5,570
<b>Net income attributable to TDS shareholders</b>		18,254			1,419
TDS Preferred dividend requirement		(12)			(12)
<b>Net income available to common shareholders</b>	\$	18,242		\$	1,407
<b>Basic weighted average shares outstanding</b>		108,988			108,255
<b>Basic earnings per share attributable to TDS shareholders</b>	\$	0.17		\$	0.01
<b>Diluted weighted average shares outstanding</b>		109,672			108,693
<b>Diluted earnings per share attributable to TDS shareholders</b>	\$	0.16		\$	0.01
<b>Dividends per share to TDS shareholders</b>	\$	0.1340		\$	0.1275
The accompanying notes are an integral part of these consolidated financial statements.					

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<b>Telephone and Data Systems, Inc.</b>							
<b><u>Consolidated Statement of Comprehensive Income</u></b>							
<b><u>(Unaudited)</u></b>							
				<b>Three Months Ended</b>			
				<b>March 31,</b>			
<b>(Dollars in thousands)</b>				<b>2014</b>		<b>2013</b>	
<b>Net income</b>				\$	20,294	\$	6,989
<b>Net change in accumulated other comprehensive income (loss)</b>							
Change in foreign currency translation adjustment					(4)		15
Change related to retirement plan							
Amounts included in net periodic benefit cost for the period							
Amortization of prior service cost					(911)		(902)
Amortization of unrecognized net loss					322		602
					(589)		(300)
Change in deferred income taxes					224		114
Change related to retirement plan, net of tax					(365)		(186)
Net change in accumulated other comprehensive income (loss)					(369)		(171)
<b>Comprehensive income</b>					19,925		6,818
Less: Comprehensive income attributable to noncontrolling interest					2,040		5,570
<b>Comprehensive income attributable to TDS shareholders</b>				\$	17,885	\$	1,248
The accompanying notes are an integral part of these consolidated financial statements.							

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<b>Telephone and Data Systems, Inc.</b>						
<b>Consolidated Statement of Cash Flows</b>						
<b>(Unaudited)</b>						
				<b>Three Months Ended</b>		
				<b>March 31,</b>		
<b>(Dollars in thousands)</b>				<b>2014</b>		<b>2013</b>
<b>Cash flows from operating activities</b>						
	Net income			\$	20,294	\$ 6,989
	Add (deduct) adjustments to reconcile net income to net cash flows from operating activities					
			Depreciation, amortization and accretion	224,919		242,077
			Bad debts expense	21,559		17,874
			Stock-based compensation expense	6,759		7,585
			Deferred income taxes, net	(14,510)		3,009
			Equity in earnings of unconsolidated entities	(37,327)		(27,089)
			Distributions from unconsolidated entities	12,820		8,089
			(Gain) loss on asset disposals, net	2,430		5,616
			(Gain) loss on sale of business and other exit costs, net	(6,900)		6,931
			(Gain) loss on license sales and exchanges	(91,446)		-
			Noncash interest expense	506		497
			Other operating activities	47		256
	Changes in assets and liabilities from operations					
			Accounts receivable	92,949		34,038
			Inventory	19,656		16,860
			Accounts payable	(53,403)		(3,203)
			Customer deposits and deferred revenues	(1,447)		7,904
			Accrued taxes	(1,634)		5,309
			Accrued interest	9,136		9,279
			Other assets and liabilities	(99,471)		(95,669)
				104,937		246,352
<b>Cash flows from investing activities</b>						
	Cash used for additions to property, plant and equipment			(150,890)		(176,318)
	Cash paid for acquisitions and licenses			(8,254)		(14,150)
	Cash received from divestitures			103,042		-
	Cash received for investments			10,000		-
	Other investing activities			1,623		6,364



						(44,479)			(184,104)
<b>Cash flows from financing activities</b>									
	Repayment of long-term debt					(392)			(328)
	TDS Common Shares reissued for benefit plans, net of tax payments					(50)			140
	U.S. Cellular Common Shares reissued for benefit plans, net of tax payments					316			123
	Repurchase of TDS Common Shares					(3,342)			-
	Repurchase of U.S. Cellular Common Shares					(2,000)			(18,425)
	Dividends paid to TDS shareholders					(14,582)			(13,792)
	Distributions to noncontrolling interests					(346)			(2,396)
	Other financing activities					2,834			(1,351)
						(17,562)			(36,029)
<b>Net increase in cash and cash equivalents</b>						42,896			26,219
<b>Cash and cash equivalents</b>									
	Beginning of period					830,014			740,481
	End of period					\$ 872,910		\$	766,700
The accompanying notes are an integral part of these consolidated financial statements.									

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<b>Telephone and Data Systems, Inc.</b>				
<b><u>Consolidated Balance Sheet — Assets</u></b>				
<b><u>(Unaudited)</u></b>				
<b>(Dollars in thousands)</b>			<b>March 31,</b>	<b>December 31,</b>
			<b>2014</b>	<b>2013</b>
<b>Current assets</b>				
	Cash and cash equivalents		\$ 872,910	\$ 830,014
	Short-term investments		40,056	50,104
	Accounts receivable			
	Due from customers and agents, less allowances of \$56,112 and \$63,690, respectively		424,451	551,611
	Other, less allowances of \$2,165 and \$1,914, respectively		190,558	179,503
	Inventory, net		224,904	244,560
	Net deferred income tax asset		106,077	106,077
	Prepaid expenses		89,344	87,920
	Income taxes receivable		5,679	2,397
	Other current assets		35,154	35,151
			1,989,133	2,087,337
<b>Assets held for sale</b>				
			-	16,027
<b>Investments</b>				
	Licenses		1,448,598	1,423,779
	Goodwill		836,843	836,843
	Franchise rights		123,668	123,668
	Other intangible assets, net of accumulated amortization of \$117,767 and \$112,752, respectively		66,439	71,454
	Investments in unconsolidated entities		326,279	301,772
	Other investments		611	641
			2,802,438	2,758,157
<b>Property, plant and equipment</b>				
	In service and under construction		11,253,631	11,239,804
	Less: Accumulated depreciation		7,474,498	7,361,660
			3,779,133	3,878,144
<b>Other assets and deferred charges</b>				
			178,599	164,482

<b>Total assets</b>				\$	8,749,303		\$	8,904,147
The accompanying notes are an integral part of these consolidated financial statements.								

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<b>Telephone and Data Systems, Inc.</b>					
<b><u>Consolidated Balance Sheet — Liabilities and Equity</u></b>					
<b><u>(Unaudited)</u></b>					
			<b>March 31,</b>		<b>December 31,</b>
<b>(Dollars and shares in thousands)</b>			<b>2014</b>		<b>2013</b>
<b>Current liabilities</b>					
	Current portion of long-term debt		\$ 1,415		\$ 1,646
	Accounts payable		414,015		496,069
	Customer deposits and deferred revenues		287,999		289,445
	Accrued interest		15,757		6,673
	Accrued taxes		72,761		70,518
	Accrued compensation		65,486		115,031
	Other current liabilities		167,746		212,374
			1,025,179		1,191,756
<b>Deferred liabilities and credits</b>					
	Net deferred income tax liability		847,850		862,975
	Other deferred liabilities and credits		477,305		458,709
<b>Long-term debt</b>			1,720,031		1,720,074
<b>Commitments and contingencies</b>			-		-
<b>Noncontrolling interests with redemption features</b>			543		536
<b>Equity</b>					
	TDS shareholders' equity				
	Series A Common and Common Shares				
	Authorized 290,000 shares (25,000 Series A Common and 265,000 Common Shares)				
	Issued 132,721 shares (7,176 Series A Common and 125,545 Common Shares) and 132,711 shares (7,166 Series A Common and 125,545 Common Shares), respectively				
	Outstanding 108,750 shares (7,176 Series A Common and 101,574 Common Shares) and 108,757 shares (7,166 Series A Common and 101,591 Common Shares), respectively				
			1,327		1,327

		Par Value (\$.01 per share) of \$1,327 (\$72 Series A Common and \$1,255 Common Shares)					
		Capital in excess of par value		2,313,682			2,308,807
		Treasury shares at cost:					
		23,971 and 23,954 Common Shares, respectively		(722,658)			(721,354)
		Accumulated other comprehensive loss		(938)			(569)
		Retained earnings		2,533,298			2,529,626
		Total TDS shareholders' equity		4,124,711			4,117,837
		Preferred shares		824			824
		Noncontrolling interests		552,860			551,436
		Total equity		4,678,395			4,670,097
		<b>Total liabilities and equity</b>		<b>\$ 8,749,303</b>			<b>\$ 8,904,147</b>

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

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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, 2013	\$ 1,327	\$ 2,308,807	\$ (721,354)	\$ (569)	\$ 2,529,626	\$ 4,117,837	\$ 824	\$ 551,436	\$ 4,670,097
Add (Deduct)									
Net income attributable to TDS shareholders	-	-	-	-	18,254	18,254	-	-	18,254
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	-	-	2,011	2,011
Change in foreign currency	-	-	-	(4)	-	(4)	-	-	(4)

translation adjustment										
Change related to retirement plan	-	-	-	(365)	-	(365)	-	-	(365)	
TDS Common and Series A Common Share dividends	-	-	-	-	(14,570)	(14,570)	-	-	(14,570)	
TDS Preferred dividend requirement	-	-	-	-	(12)	(12)	-	-	(12)	
Repurchase of Common Shares	-	-	(3,843)	-	-	(3,843)	-	-	(3,843)	
Dividend reinvestment plan	-	800	1,874	-	-	2,674	-	-	2,674	
Incentive and compensation plans	-	(284)	665	-	-	381	-	-	381	
Adjust investment in subsidiaries for repurchases, issuances and other	-	2,780	-	-	-	2,780	-	(262)	2,518	

compensation plans										
Stock-based awards	-	2,011	-	-	-	2,011	-	-	2,011	
Tax windfall (shortfall) from stock awards	-	(432)	-	-	-	(432)	-	-	(432)	
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(325)	(325)	
<b>March 31, 2014</b>	<b>\$ 1,327</b>	<b>\$ 2,313,682</b>	<b>\$ (722,658)</b>	<b>\$ (938)</b>	<b>\$ 2,533,298</b>	<b>\$ 4,124,711</b>	<b>\$ 824</b>	<b>\$ 552,860</b>	<b>\$ 4,678,395</b>	

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



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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	-	-	-	-	1,419	1,419	-	-	1,419	
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	-	-	5,597	5,597	
Change in foreign currency	-	-	-	15	-	15	-	-	15	

translation adjustment													
Change related to retirement plan	-	-	-	(186)	-	(186)	-	-					(186)
TDS Common and Series A  Common Share dividends	-	-	-	-	(13,780)	(13,780)	-	-					(13,780)
TDS Preferred dividend  requirement	-	-	-	-	(12)	(12)	-	-					(12)
Dividend reinvestment plan	-	-	3	-	(2)	1	-	-					(1)
Incentive and compensation  plans	-	534	2,265	-	(2,223)	576	-	-					576
Adjust investment in  subsidiaries for repurchases,  issuances and other  compensation plans	-	6,561	-	-	-	6,561	-	(20,009)					(13,448)

Stock-based compensation awards	-	2,395	-	-	-	2,395	-	-	2,395
Tax windfall (shortfall) from stock awards	-	(532)	-	-	-	(532)	-	-	(532)
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(2,396)	(2,396)
Adjust investment in subsidiaries for noncontrolling interest purchases	-	(10,295)	-	-	-	(10,295)	-	5,299	(4,996)
<b>March 31, 2013</b>	<b>\$ 1,327</b>	<b>\$ 2,302,785</b>	<b>\$ (747,831)</b>	<b>\$ (8,303)</b>	<b>\$ 2,449,720</b>	<b>\$ 3,997,698</b>	<b>\$ 825</b>	<b>\$ 632,457</b>	<b>\$ 4,630,980</b>

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

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**Telephone and Data Systems, Inc.**

**Notes to Consolidated Financial Statements**

**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, 2013.

TDS’ business segments reflected in this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 are U.S. Cellular, TDS Telecom’s Wireline, Cable and 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”). Periods presented for comparative purposes have been re-presented to conform to this segment presentation. All of TDS’ segments operate only in the United States, except for HMS, which includes an insignificant foreign operation. See Note 11 — Business Segment Information for summary financial information on each business segment.

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 March 31, 2014 and December 31, 2013, and the results of operations, changes in comprehensive income, cash flows and equity for the three months ended March 31, 2014 and 2013. These results are not necessarily indicative of the results to be expected for the full year.

#### Recently Issued Accounting Pronouncements

On April 10, 2014, the FASB issued Accounting Standards Update 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (“ASU 2014-08”). ASU 2014-08 changes the requirements and disclosures for reporting discontinued operations. TDS is required to adopt the provisions of ASU 2014-08 effective January 1, 2015, although early adoption is permitted. The adoption of ASU 2014-08 is not expected to have a significant impact on TDS’ financial position or results of operations.

#### Reclassifications

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

In 2014, TDS began displaying separately Equipment and product sales and Cost of equipment and products. As a result of recent HMS acquisitions, these amounts are now more significant to TDS and, accordingly, are shown as separate captions under Operating revenues and Operating expenses, respectively, on the Consolidated Statement of Operations. Amounts in 2013 have been reclassified to conform to the 2014 presentation.

Table of ContentsAmounts 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 Service revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled \$31.0 million and \$36.1 million for the three months ended March 31, 2014, and 2013, respectively.

**2. Fair Value Measurements**

As of March 31, 2014 and December 31, 2013, TDS did not have any financial or nonfinancial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP. 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	March 31, 2014				December 31, 2013			
		Book Value		Fair Value		Book Value		Fair Value	
<b>(Dollars in thousands)</b>									
Cash and cash equivalents	1	\$	872,910	\$	872,910	\$	830,014	\$	830,014
Short-term investments									
U.S. Treasury Notes	1		40,056		40,056		50,104		50,104
Long-term debt									
Retail	1		1,178,250		1,170,617		1,178,250		1,048,010
Institutional and other	2		537,408		536,843		537,454		512,635

Short-term investments are designated as held-to-maturity investments and recorded at amortized cost in the Consolidated Balance Sheet. 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 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 its institutional and other debt through a discounted cash flow analysis using the interest rates or estimated yield to maturity for each borrowing, which ranged from 0.00% to 6.91% at March 31, 2014.

### **3. Income Taxes**

TDS' overall effective tax rate on Income before income taxes for the three months ended March 31, 2014 and 2013 was 36.5% and 37.4%, respectively. The effective tax rate for the three months ended March 31, 2014 was lower than the rate for the three months ended March 31, 2013 primarily as a result of tax benefits from state law changes in 2014.

### **4. Earnings Per Share**

Basic earnings per share attributable to TDS shareholders is computed by dividing Net income available to common shareholders of TDS by the weighted average number of common shares outstanding during the period. Diluted earnings per share attributable to TDS shareholders is computed by dividing Net income 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 per common share and the effects of potentially dilutive securities on the weighted average number of common shares were as follows:

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				<b>Three Months Ended</b>			
				<b>March 31,</b>			
				<b>2014</b>		<b>2013</b>	
<b>(Dollars and shares in thousands, except per share amounts)</b>							
Basic earnings per share attributable to TDS shareholders:							
	Net income available to common shareholders of						
	TDS used in basic earnings per share			\$	18,242	\$	1,407
Adjustments to compute diluted earnings:							
	Noncontrolling interest adjustment				(165)		(37)
	Net income attributable to common shareholders of						
	TDS used in diluted earnings per share			\$	18,077	\$	1,370
Weighted average number of shares used in basic earnings per share:							
	Common Shares				101,821		101,095
	Series A Common Shares				7,167		7,160
	Total				108,988		108,255
Effects of dilutive securities:							
	Stock options				303		112
	Restricted stock units				381		326
Weighted average number of shares used in diluted earnings per share					109,672		108,693
Basic earnings per share attributable to TDS shareholders				\$	0.17	\$	0.01
Diluted earnings per share attributable to TDS shareholders				\$	0.16	\$	0.01

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.

				<b>Three Months Ended</b>			
				<b>March 31,</b>			
				<b>2014</b>		<b>2013</b>	
<b>(Shares in thousands)</b>							
Stock options					6,915		6,672



Preferred shares	57		61
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On June 25, 2013, U.S. Cellular paid a special cash dividend of \$5.75 per share, for an aggregate amount of \$482.3 million, to all holders of U.S. Cellular Common Shares and Series A Common Shares as of June 11, 2013. Outstanding U.S. Cellular stock options and restricted stock unit awards were equitably adjusted for the special cash dividend. The impact of such adjustments on the earnings per share calculation was reflected for all periods presented.

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**5. Acquisitions, Divestitures and Exchanges**

Divestiture Transaction

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

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 estimated costs, including applicable overhead allocations. These services were substantially complete as of March 31, 2014. In addition, these agreements require Sprint to reimburse U.S. Cellular up to \$200 million (the “Sprint Cost Reimbursement”) for certain network decommissioning costs, network site lease rent and termination costs, network access termination costs, and employee termination benefits for specified engineering employees. It is estimated that up to \$175 million of the Sprint Cost Reimbursement will be recorded in (Gain) loss on sale of business and other exit costs, net and up to \$25 million of the Sprint Cost Reimbursement will be recorded in Cost of services in the Consolidated Statement of Operations. For the three months ended March 31, 2014, \$11.3 million of the Sprint Cost Reimbursement had been received and recorded in Cash received from divestitures in the Consolidated Statement of Cash Flows.

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

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(Dollars in thousands)		Expected Period of Recognition	Projected Range		Cumulative Amount Recognized as of March 31, 2014	Actual Amount Recognized Three Months Ended March 31, 2014	Actual Amount Recognized Three Months Ended March 31, 2013		
<b>(Gain) loss on sale of business and other exit costs, net</b>									
Proceeds from Sprint									
	Purchase price	2013	\$ (480,000)	\$ (480,000)	\$ (480,000)	\$ -	\$ -		
	Sprint Cost Reimbursement	2013-2015	(120,000)	(175,000)	(92,272)	(44,631)	-		
Net assets transferred		2013	160,073	160,073	160,073	-	-		
Non-cash charges for the write-off and write-down									
	of property under construction and related assets	2012-2014	10,000	15,000	11,018	343	222		
Employee related costs including severance, retention and outplacement		2012-2014	12,000	18,000	14,200	(62)	3,050		
Contract termination costs		2012-2015	100,000	130,000	96,671	37,087	2,900		
Transaction costs		2012-2014	5,000	7,000	5,774	209	918		
Total (Gain) loss on sale of business and other exit costs, net			\$ (312,927)	\$ (324,927)	\$ (284,536)	\$ (7,054)	\$ 7,090		
<b>Depreciation, amortization and accretion expense</b>									
	Incremental depreciation, amortization and	2012-2014	210,000	220,000	211,656	13,085	38,046		

accretion, net of salvage values												
<b>(Increase) decrease in Operating income</b>			\$ (102,927)		\$ (104,927)		\$ (72,880)		\$ 6,031		\$ 45,136	

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

As a result of the transaction, TDS recognized the following amounts in the Consolidated Balance Sheet:												
<b>Three Months Ended March 31, 2014</b>												
<b>(Dollars in thousands)</b>		<b>Balance December 31, 2013</b>		<b>Costs Incurred</b>		<b>Cash Settlements (1)</b>		<b>Adjustments (2)</b>		<b>Balance March 31, 2014</b>		
<b>Accrued compensation</b>												
	Employee related costs including severance, retention, outplacement	\$	2,053	\$	169	\$	(701)	\$	(231)	\$	1,290	
<b>Other current liabilities</b>												
	Contract termination costs	\$	13,992	\$	12,673	\$	(5,950)	\$	792	\$	21,507	
<b>Other deferred liabilities and credits</b>												
	Contract termination costs	\$	30,849	\$	24,073	\$	(1,924)	\$	(8,614)	\$	44,384	
<b>(1)</b> 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.												
<b>(2)</b> Adjustment to liability represents changes to previously accrued amounts.												

Other Acquisitions, Divestitures and Exchanges

On March 5, 2014, U.S. Cellular sold the majority of its St. Louis area non-operating market license for \$92.3 million. A gain of \$75.8 million was recorded in (Gain) loss on license sales and exchanges in the Consolidated

Statement of Operations for the three months ended March 31, 2014.

On February 14, 2014, U.S. Cellular completed an exchange whereby U.S. Cellular received one E block PCS spectrum license covering Milwaukee, WI in exchange for one D block PCS spectrum license covering Milwaukee, WI. The exchange of licenses provided U.S. Cellular with spectrum to meet anticipated future capacity and coverage requirements. No cash, customers, network assets, other assets or liabilities were included in the exchange. As a result of this transaction, TDS recognized a gain of \$15.7 million, representing the difference between the \$15.9 million fair value of the license surrendered, calculated using a market approach valuation method, and the \$0.2 million carrying value of the license surrendered. This gain was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations for the three months ended March 31, 2014.

## **6. Intangible Assets**

There were no significant changes to Goodwill, Franchise rights or Other intangible assets during the periods presented.

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<u>Licenses</u>									
			<b>U.S. Cellular</b>		<b>Wireline</b>		<b>Non-Reportable Segment</b>		<b>Total</b>
<b>(Dollars in thousands)</b>									
Balance December 31, 2013		\$	1,405,759	\$	2,800	\$	15,220	\$	1,423,779
Acquisitions			9,100		-		-		9,100
Exchanges, net			15,719		-		-		15,719
Balance March 31, 2014		\$	1,430,578	\$	2,800	\$	15,220	\$	1,448,598
Balance December 31, 2012		\$	1,462,019	\$	2,800	\$	15,220	\$	1,480,039
Acquisitions			14,150		-		-		14,150
Balance March 31, 2013		\$	1,476,169	\$	2,800	\$	15,220	\$	1,494,189

**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.

	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.			
		<b>Three Months Ended March 31,</b>		
		<b>2014</b>		<b>2013</b>
<b>(Dollars in thousands)</b>				
Revenues	\$	1,625,765	\$	1,475,620
Operating expenses		1,142,073		1,038,991
Operating income		483,692		436,629
Other income, net		1,835		510
Net income	\$	485,527	\$	437,139

NY1 & NY2 Deconsolidation

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