TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-Q
August 02, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 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.)

30 North LaSalle Street, Suite 4000, Chicago, Illinois 60602

(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	
• 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	x	

the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

• 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	x	Accelerated filer	Non-accelerated filer	Smaller reporting company

• 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 June 30, 2013**
Common Shares, $0.01 par value	101,140,130 Shares
Series A Common Shares, $0.01 par value	7,148,768 Shares

Telephone and Data Systems, Inc.

Quarterly Report on Form 10-Q
For the Quarterly Period Ended June 30, 2013

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Part I. Financial Information
Item 1. Financial Statements

Telephone and Data Systems, Inc.

Consolidated Statement of Operations

(Unaudited)

(Dollars and shares in thousands, except per share amounts)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Operating revenues	$ 1,228,166	$ 1,323,169	$ 2,536,739	$ 2,628,960
Operating expenses				
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	515,731	527,670	1,075,623	1,036,881
Selling, general and administrative	470,720	502,404	957,623	1,010,003
Depreciation, amortization and accretion	254,203	198,509	496,280	395,943
Loss on impairment of assets	-	515	-	515
Loss on asset disposals, net	8,319	2,995	13,935	5,074
(Gain) loss on sale of business and other exit costs, net	(303,034)	-	(296,103)	(4,174)
Total operating expenses	945,939	1,232,093	2,247,358	2,444,242
Operating income	282,227	91,076	289,381	184,718
Investment and other income (expense)				
Equity in earnings of unconsolidated entities	35,605	25,392	62,694	48,781
Interest and dividend income	2,600	2,352	4,178	4,535
Gain (loss) on investments	14,518	(3,728)	14,518	(3,728)
Interest expense	(23,749)	(23,139)	(48,247)	(47,603)
Other, net	(197)	(249)	(351)	(21)
Total investment and other income (expense)	28,777	628	32,792	1,964

Income before income taxes		311,004		91,704		322,173		186,682
Income tax expense		132,607		35,765		136,787		63,177
Net income		178,397		55,939		185,386		123,505
Less: Net income attributable to noncontrolling interests, net of tax		(22,320)		(13,602)		(27,890)		(28,914)
Net income attributable to TDS shareholders		156,077		42,337		157,496		94,591
TDS Preferred dividend requirement		(12)		(12)		(25)		(25)
Net income available to common shareholders	$	156,065	$	42,325	$	157,471	$	94,566
Basic weighted average shares outstanding		108,385		108,732		108,320		108,693
Basic earnings per share attributable to TDS shareholders	$	1.44	$	0.39	$	1.45	$	0.87
Diluted weighted average shares outstanding		108,913		109,022		108,827		108,964
Diluted earnings per share attributable to TDS shareholders	$	1.42	$	0.39	$	1.44	$	0.86
Dividends per share to TDS shareholders	$	0.1275	$	0.1225	$	0.2550	$	0.2450

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

Telephone and Data Systems, Inc.

Consolidated Statement of Comprehensive Income

(Unaudited)

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(Dollars in thousands)	**2013**	**2012**	**2013**	**2012**
Net income	$ 178,397	$ 55,939	$ 185,386	$ 123,505
Net change in accumulated other comprehensive income (loss)				
Change in net unrealized gain (loss) on equity investments	51	49	51	49
Change in foreign currency translation adjustment	-	-	15	-
Change related to retirement plan			.	
Amounts included in net periodic benefit cost for the period				
Amortization of prior service cost	(902)	(934)	(1,804)	(1,868)
Amortization of unrecognized net loss	602	623	1,204	1,246
	(300)	(311)	(600)	(622)
Change in deferred income taxes	114	463	228	933
Change related to retirement plan, net of tax	(186)	152	(372)	311
Net change in accumulated other comprehensive income (loss)	(135)	201	(306)	360
Comprehensive income	178,262	56,140	185,080	123,865
Less: Comprehensive income attributable to noncontrolling interest	(22,320)	(13,602)	(27,890)	(28,914)
Comprehensive income attributable to TDS shareholders	$ 155,942	$ 42,538	$ 157,190	$ 94,951

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

Telephone and Data Systems, Inc.

Consolidated Statement of Cash Flows

(Unaudited)

(Dollars in thousands)	Six Months Ended June 30, 2013	2012
Cash flows from operating activities		
Net income	$ 185,386	$ 123,505
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities		
Depreciation, amortization and accretion	496,280	395,943
Bad debts expense	35,187	33,626
Stock-based compensation expense	12,902	20,955
Deferred income taxes, net	(21,246)	29,929
Equity in earnings of unconsolidated entities	(62,694)	(48,781)
Distributions from unconsolidated entities	47,635	6,973
Loss on impairment of assets	-	515
Loss on asset disposals, net	13,935	5,074
(Gain) loss on sale of business and other exit costs, net	(296,103)	(4,174)
(Gain) loss on investments	(14,518)	3,728
Noncash interest expense	997	1,728
Other operating activities	505	1,010
Changes in assets and liabilities from operations		
Accounts receivable	(5,781)	(10,197)
Inventory	(8,105)	(58,467)
Accounts payable	58,204	(23,336)
Customer deposits and deferred revenues	7,897	22,786
Accrued taxes	150,425	89,433
Accrued interest	2,172	(1,823)
Other assets and liabilities	(81,586)	(81,517)
	521,492	506,910
Cash flows from investing activities		
Cash used for additions to property, plant and equipment	(384,281)	(501,211)
Cash paid for acquisitions and licenses	(14,150)	(52,213)
Cash received from divestitures	480,000	50,036
Cash paid for investments	-	(45,000)
Cash received for investments	15,000	128,444
Other investing activities	14,127	(8,916)
	110,696	(428,860)
Cash flows from financing activities		
Repayment of long-term debt	(605)	(952)
Issuance of long-term debt	-	358

TDS Common Shares and Special Common Shares reissued for benefit plans,				
net of tax payments		776		(39)
U.S. Cellular Common Shares reissued for benefit plans, net of tax payments		(2,206)		(2,465)
Repurchase of U.S. Cellular Common Shares		(18,425)		-
Dividends paid to TDS shareholders		(27,598)		(26,610)
U.S. Cellular dividends paid to noncontrolling public shareholders		(75,235)		-
Payment of debt issuance costs		(23)		-
Distributions to noncontrolling interests		(3,292)		(643)
Other financing activities		354		2,790
		(126,254)		(27,561)
Net increase in cash and cash equivalents		505,934		50,489
Cash and cash equivalents				
Beginning of period		740,481		563,275
End of period	$	1,246,415	$	613,764

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

Telephone and Data Systems, Inc.

Consolidated Balance Sheet — Assets

(Unaudited)

(Dollars in thousands)	June 30, 2013	December 31, 2012
Current assets		
Cash and cash equivalents	$ 1,246,415	$ 740,481
Short-term investments	110,352	115,700
Accounts receivable		
Due from customers and agents, less allowances of $28,368 and $28,152, respectively	353,580	409,720
Other, less allowances of $3,030 and $5,263, respectively	132,016	164,608
Inventory	168,700	160,692
Net deferred income tax asset	56,822	43,411
Prepaid expenses	93,383	86,385
Income taxes receivable	9	9,625
Other current assets	32,375	32,815
	2,193,652	1,763,437
Assets held for sale	78,389	163,242
Investments		
Licenses	1,418,832	1,480,039
Goodwill	759,885	797,194
Other intangible assets, net of accumulated amortization of $102,890 and $143,613, respectively	52,592	58,522
Investments in unconsolidated entities	312,046	179,921
Long-term investments	40,120	50,305
Other investments	738	824
	2,584,213	2,566,805
Property, plant and equipment		
In service and under construction	10,758,765	10,808,499
Less: Accumulated depreciation	6,989,832	6,811,233
	3,768,933	3,997,266
Other assets and deferred charges	129,578	133,150
Total assets	$ 8,754,765	$ 8,623,900

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

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Telephone and Data Systems, Inc.

Consolidated Balance Sheet — Liabilities and Equity

(Unaudited)

(Dollars and shares in thousands)	June 30, 2013	December 31, 2012
Current liabilities		
Current portion of long-term debt	$ 1,899	$ 1,233
Accounts payable	393,906	377,291
Customer deposits and deferred revenues	228,259	222,345
Accrued interest	8,599	6,565
Accrued taxes	190,836	48,237
Accrued compensation	95,677	134,932
Other current liabilities	114,910	134,005
	1,034,086	924,608
Liabilities held for sale	559	19,594
Deferred liabilities and credits		
Net deferred income tax liability	855,623	862,580
Other deferred liabilities and credits	460,991	438,727
Long-term debt	1,720,642	1,721,571
Commitments and contingencies	-	-
Noncontrolling interests with redemption features	512	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 132,694 shares (7,149 Series A Common and 125,545 Common Shares) and 132,672 shares (7,160 Series A Common and 125,512 Common Shares), respectively		
Outstanding 108,289 shares (7,149 Series A Common and 101,140 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	1,327	1,327

Common Shares), respectively				
Capital in excess of par value		2,299,091		2,304,122
Treasury shares at cost:				
24,405 and 24,641 Common Shares, respectively		(738,397)		(750,099)
Accumulated other comprehensive loss		(8,438)		(8,132)
Retained earnings		2,586,567		2,464,318
Total TDS shareholders' equity		4,140,150		4,011,536
Preferred shares		825		825
Noncontrolling interests		541,377		643,966
Total equity		4,682,352		4,656,327
Total liabilities and equity	$	8,754,765	$	8,623,900

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

Telephone and Data Systems, Inc.

Consolidated Statement of Changes in Equity

(Unaudited)

	TDS Shareholders								
(Dollars in thousands)	**Series A Common and 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, 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	-	-	-	-	157,496	157,496	-	-	157,496
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	-	-	27,871	27,871
Net unrealized gain (loss) on equity	-	-	-	51	-	51	-	-	51

investments									
Change in foreign currency translation adjustment	-	-	-	15	-	15	-	-	15
Change related to retirement plan	-	-	-	(372)	-	(372)	-	-	(372)
TDS Common and Series A Common Share dividends	-	-	-	-	(27,573)	(27,573)	-	-	(27,573)
TDS Preferred dividend requirement	-	-	-	-	(25)	(25)	-	-	(25)
U.S. Cellular dividends paid to noncontrolling public shareholders	-	-	-	-	-	-	-	(75,235)	(75,235)
Dividend reinvestment plan	-	448	7,914	-	(4,540)	3,822	-	-	3,822
Incentive and compensation plans	-	533	3,788	-	(3,109)	1,212	-	-	1,212
	-	(1,166)	-	-	-	(1,166)	-	(13,457)	(14,623)

Adjust investment in subsidiaries for repurchases, issuances and other compensation plans									
Stock-based compensation awards	-	6,124	-	-	-	6,124	-	-	6,124
Tax windfall (shortfall) from stock awards	-	(648)	-	-	-	(648)	-	-	(648)
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(3,292)	(3,292)
Adjust investment in subsidiaries for noncontrolling interest purchases		(10,322)	-	-	-	(10,322)	-	5,294	(5,028)
Deconsolidation of partnerships	-	-	-	-	-	-	-	(43,770)	(43,770)
June 30, 2013	**$ 1,327**	**$ 2,299,091**	**$ (738,397)**	**$ (8,438)**	**$ 2,586,567**	**$ 4,140,150**	**$ 825**	**$ 541,377**	**$ 4,682,352**

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

Telephone and Data Systems, Inc.

Consolidated Statement of Changes in Equity

(Unaudited)

	TDS Shareholders								
(Dollars in thousands)	**Series A Common and Common Shares**	**Capital in Excess of Par Value**	**Treasury Common Shares**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Total TDS Shareholders' Equity**	**Preferred Shares**	**Noncontrolling Interests**	**Total Equity**
December 31, 2011	**$ 1,326**	**$ 2,268,711**	**$ (750,921)**	**$ (8,854)**	**$ 2,451,899**	**$ 3,962,161**	**$ 830**	**$ 639,688**	**$ 4,602,679**
Add (Deduct)									
Net income attributable to TDS shareholders	-	-	-	-	94,591	94,591	-	-	94,591
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	-	-	28,869	28,869
Net unrealized gain	-	-	-	49	-	49	-	-	49

(loss) on equity investments									
Change related to retirement plan	-	-	-	311	-	311	-	-	311
TDS Common and Series A Common Share dividends	-	-	-	-	(26,585)	(26,585)	-	-	(26,585)
TDS Preferred dividend requirement	-	-	-	-	(25)	(25)	-	-	(25)
Dividend reinvestment plan	-	581	6,764	-	(4,196)	3,149	-	-	3,149
Incentive and compensation plans	-	444	1,251	-	(1,357)	338	-	-	338
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	-	1,438	-	-	-	1,438	-	7,763	9,201

Stock-based compensation awards	-	9,711	-	-	-	9,711	-	-	9,711
Tax windfall (shortfall) from stock awards	-	(83)	-	-	-	(83)	-	-	(83)
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(643)	(643)
Other	-	-	-	-	-	-	-	84	84
June 30, 2012	**$ 1,326**	**$ 2,280,802**	**$ (742,906)**	**$ (8,494)**	**$ 2,514,327**	**$ 4,045,055**	**$ 830**	**$ 675,761**	**$ 4,721,646**

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

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 wireline telephone 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.

TDS' business segments reflected in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013, are U.S. Cellular, TDS Telecom's incumbent local exchange carriers, ("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"). 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 June 30, 2013 and December 31, 2012, and the results of operations and changes in comprehensive income for the three and six months ended June 30, 2013 and 2012 and cash flows and changes in equity for the six months ended June 30, 2013 and 2012. These results are not necessarily indicative of the results to be expected for the full year.

Recent 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 Carryfoward, 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.

Agent Liabilities

U.S. Cellular has relationships with agents, which are independent businesses that obtain customers for U.S. Cellular. At June 30, 2013 and December 31, 2012, U.S. Cellular had accrued $66.7 million and $88.2 million, respectively, for amounts due to agents, including rebates and commissions. These amounts are included in Other current liabilities in the Consolidated Balance Sheet.

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 $31.9 million and $67.9 million for the three and six months ended June 30, 2013, respectively, and $38.9 million and $78.4 million for the three and six months ended June 30, 2012, respectively.

2. Fair Value Measurements

As of June 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	June 30, 2013		December 31, 2012	
		Book Value	Fair Value	Book Value	Fair Value
(Dollars in thousands)					
Cash and cash equivalents	1	$ 1,246,415	$ 1,246,415	$ 740,481	$ 740,481
Short-term investments					
U.S. Treasury Notes	1	110,352	110,352	115,700	115,700
Long-term investments					
U.S. Treasury Notes	1	40,120	40,141	50,305	50,339
Long-term debt					
Retail	1	1,178,250	1,189,744	1,178,250	1,238,204
Institutional and other	2	537,590	534,353	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 17 and 18 months at June 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 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 6.95% at June 30, 2013.

As of June 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 before income taxes for the three and six months ended June 30, 2013 was 42.6% and 42.5%, respectively, and for the three and six months ended June 30, 2012 was 39.0% and 33.8%, respectively.

The effective tax rate for the three months ended June 30, 2013 was higher than the rate for the three months ended June 30, 2012 primarily as a result of the deferred tax expense related to the NY1 & NY2 Deconsolidation in April 2013.

The effective tax rate for the six months ended June 30, 2013 was higher than the rate for the six months ended June 30, 2012 primarily as a result of the deferred tax expense related to the NY1 & NY2 Deconsolidation in April 2013, and tax benefits related to the expiration of the statute of limitations for certain tax years and the adjustment of deferred tax balances related to certain partnership investments in 2012.

TDS incurred 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 a $71.4 million federal income tax refund in 2012 for carrybacks to 2009 and 2010 tax years. Of this amount, $59.9 million was received in the six months ended June 30, 2012.

The Divestiture Transaction (as described in Note 5 — Acquisitions, Divestitures and Exchanges) closed on May 16, 2013, and resulted in a current tax liability of $128.9 million which had not been paid as of June 30, 2013. This amount is included in Accrued taxes in the June 30, 2013 Consolidated Balance Sheet.

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
(Dollars and shares in thousands, except per share amounts)				
Basic earnings per share attributable to TDS shareholders:				
Net income available to common shareholders of TDS used in basic earnings per share	$ 156,065	$ 42,325	$ 157,471	$ 94,566
Adjustments to compute diluted earnings:				
Noncontrolling interest adjustment	(1,173)	(275)	(1,209)	(692)
Preferred dividend adjustment	12	12	25	25
Net income attributable to common shareholders of TDS used in diluted earnings per share	$ 154,904	$ 42,062	$ 156,287	$ 93,899
Weighted average number of shares used in basic earnings per share:				

Common Shares	101,246	101,467	101,171	101,567
Series A Common Shares	7,139	7,265	7,149	7,126
Total	108,385	108,732	108,320	108,693
Effects of dilutive securities:				
Stock options	110	2	108	4
Restricted stock units	364	223	345	202
Preferred shares	54	65	54	65
Weighted average number of shares used in diluted earnings per share	108,913	109,022	108,827	108,964
Basic earnings per share attributable to TDS shareholders	$ 1.44	$ 0.39	$ 1.45	$ 0.87
Diluted earnings per share attributable to TDS shareholders	$ 1.42	$ 0.39	$ 1.44	$ 0.86

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 six months ended June 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
(Shares in thousands)				
Stock options	7,348	7,993	7,012	7,568
Restricted stock units	200	169	102	85

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 companies, 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.

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.

(Dollars in thousands)	Expected Period of Recognition	Projected Range		Cumulative Amount Recognized as of June 30, 2013	Actual Amount Recognized Six Months Ended June 30, 2013	Actual Amount Recognized Three Months Ended June 30, 2013
(Gain) loss on sale of business and other exit costs, net						
Proceeds from Sprint						
Purchase price	2013	$ (480,000)	$ (480,000)	$ (480,000)	$ (480,000)	$ (480,000)
Sprint Cost Reimbursement	2013-2014	(120,000)	(160,000)	(8)	(8)	(8)
Net assets transferred	2013	160,073	160,073	160,073	160,073	160,073
Non-cash charges for the write-off and write-down of property under construction and related assets	2012-2013	11,000	15,000	10,753	81	(141)
Employee related costs including severance, retention and outplacement	2012-2014	16,000	25,000	15,712	3,103	53
Contract termination costs	2012-2014	125,000	175,000	16,664	16,605	13,705
Transaction costs	2012-2013	4,000	6,000	4,856	3,719	2,801
Total (Gain) loss on sale of business and other exit costs, net		$ (283,927)	$ (258,927)	$ (271,950)	$ (296,427)	$ (303,517)

Depreciation, amortization and accretion expense						
Incremental depreciation, amortization and accretion, net of salvage values	2012-2014	175,000	210,000	108,382	88,324	50,278
Other Operating expenses						
Non-cash charges for the write-off and write-down of various operating assets and liabilities	2013	-	10,000	-	-	-
(Increase) decrease in Operating income		$ (108,927)	$ (38,927)	$ (163,568)	$ (208,103)	$ (253,239)

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 transaction, TDS recognized the following amounts in the Consolidated Balance Sheet:

		Six Months Ended June 30, 2013					
(Dollars in thousands)	Balance December 31, 2012	Costs Incurred	Cash Settlements (1)	Non-cash Settlements	Adjustments	Other	Balance June 30, 2013
Accrued compensation							
Employee related costs including severance, retention, outplacement	$ 12,305	$ 6,037	$ (10,282)	$ -	$ (2,934)	$ 372	$ 5,498
Other current liabilities							
Contract termination costs	$ 30	$ 10,183	$ (3,405)	$ -	$ -	$ 942	$ 7,750
Other deferred liabilities and credits							
Contract termination costs	$ -	$ 6,421	$ -	$ -	$ -	$ -	$ 6,421

(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.

Other Acquisitions, Divestitures and Exchanges

On August 1, 2013, TDS acquired substantially all of the assets of Baja Broadband, LLC (“Baja”) for $267.5 million in cash, subject to a working capital adjustment. 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.

On June 28, 2013, U.S. Cellular entered into a definitive agreement to sell the majority of its Mississippi Valley non-operating market license (“unbuilt license”) for $308.0 million. The transaction is subject to regulatory approval and is expected to close by the end of 2013. In addition, the U.S. Cellular Board of Directors approved the sale of U.S. Cellular’s St. Louis area unbuilt license. 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 June 30, 2013.

TDS' acquisitions during the six months ended June 30, 2013 and 2012 and the allocation of the purchase price for these acquisitions were as follows:

					Allocation of Purchase Price					
(Dollars in thousands)		**Purchase Price (1)**		**Goodwill (2)**		**Licenses**		**Intangible Assets Subject to Amortization (3)**		**Net Tangible Assets/(Liabilities)**
2013										
U.S. Cellular licenses	$	14,150	$	-	$	14,150	$	-	$	-
2012										
U.S. Cellular licenses	$	12,647	$	-	$	12,647	$	-	$	-
TDS Telecom HMS business		46,126		20,364		-		20,300		5,462
Total	$	58,773	$	20,364	$	12,647	$	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 2012 was amortizable for income tax purposes.

(3) The weighted average amortization period for Intangible Assets Subject to Amortization acquired in 2012 was 8.1 years.

At June 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":

(Dollars in thousands)	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)
June 30, 2013							
Divestiture of Missouri Market (3)	$ 633	$ 2,909	$ 178	$ 3,179	(366)	$ 6,533	$ 559
Divestiture of Spectrum Licenses	-	71,856	-	-	-	71,856	-
Total	$ 633	$ 74,765	$ 178	$ 3,179	$ (366)	$ 78,389	$ 559
December 31, 2012							
Divestiture Transaction	$ -	$ 140,599	$ 19,474	$ -	$ -	$ 160,073	$ 19,594
Bolingbrook Customer Care Center (4)	-	-	-	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) Effective January 1, 2013, U.S. Cellular transferred its Bolingbrook Customer Care Center operations to an existing third party vendor.

6. Intangible Assets

Changes in TDS’ Licenses and Goodwill for the six months ended June 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.

Licenses

(Dollars in thousands)	U.S. Cellular	TDS Telecom CLEC	Non-Reportable Segment	Total
Balance December 31, 2012	$ 1,462,019	$ 2,800	$ 15,220	$ 1,480,039
Acquisitions	14,150	-	-	14,150
Transferred to Assets held for sale	(74,765)	-	-	(74,765)
NY1 & NY2 Deconsolidation	(592)	-	-	(592)
Balance June 30, 2013	$ 1,400,812	$ 2,800	$ 15,220	$ 1,418,832
Balance December 31, 2011	$ 1,475,994	$ 2,800	$ 15,220	$ 1,494,014
Acquisitions	12,647	-	-	12,647
Other	786	-	-	786
Balance June 30, 2012	$ 1,489,427	$ 2,800	$ 15,220	$ 1,507,447

<u>Goodwill</u>

		TDS Telecom				
(Dollars in thousands)	**U.S. Cellular**	**ILEC**	**CLEC**	**HMS**	**Non-Reportable Segment**	**Total**
Assigned value at time of acquisition	$ 622,681	$ 420,458	$ 29,440	$ 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
Transferred to Assets held for sale	(178)	-	-	-	-	(178)
NY1 & NY2 Deconsolidation	(37,131)	-	-	-	-	(37,131)
Balance June 30, 2013	$ 231,998	$ 420,458	$ -	$ 103,627	$ 3,802	$ 759,885
Assigned value at time of acquisition	$ 622,681	$ 420,716	$ 29,440	$ 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 June 30, 2012	$ 288,781	$ 420,458	$ -	$ 103,627	$ 3,802	$ 816,668

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 $35.6 million and $25.4 million in the three months ended June 30, 2013 and 2012, respectively, and $62.7 million and $48.8 million in the six months ended June 30, 2013 and 2012, respectively; of those amounts, TDS' investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed $19.8 million and $19.2 million in the three months ended June 30, 2013 and 2012, respectively, and $40.4 million and $36.3 million in the six months ended June 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 June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
(Dollars in thousands)				
Revenues	$ 1,550,200	$ 1,426,077	$ 3,048,460	$ 2,863,085
Operating expenses	1,100,477	1,019,669	2,172,169	2,096,420
Operating income	449,723	406,408	876,291	766,665
Other income, net	713	989	1,136	1,639
Net income	$ 450,436	$ 407,397	$ 877,427	$ 768,304

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 markets and based on U.S. Cellular's rights under the Partnership Agreements, TDS consolidated the financial results of these markets 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 is 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. The gain was recorded in Gain on investments in the Consolidated Statement of Operations for the three and six months ended June 30, 2013.

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, the long-term and terminal growth rate, discount rate and projected capital expenditures. The assumptions were as follows:

Key assumptions	
Weighted-average expected revenue growth rate (next ten years)	2.0%
Long-term and terminal revenue growth rate (after year ten)	2.0%
Discount rate	10.5%
Capital expenditures as a percentage of revenue	14.9-18.8%

The 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”). Pursuant to an updated Statement of Work dated June 29, 2012, the initial implementation of B/OSS is expected to take until the third quarter of 2013 to complete and total payments to Amdocs are estimated to be approximately $190.1 million (subject to certain potential adjustments) over the period from commencement of the SLMA in 2010 through the end of 2013. As of June 30, 2013, $116.3 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 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 June 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 later in 2013.

9. Variable Interest Entities (VIEs)

Consolidated VIEs

As of June 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.

(Dollars in thousands)			June 30, 2013		December 31, 2012
Assets					
	Cash and cash equivalents	$	5,001	$	7,028
	Other current assets		117		3,267
	Licenses and other intangible assets		308,091		325,707
	Property, plant and equipment, net		17,532		31,544
	Other assets and deferred charges		1,015		3,026
	Total assets	$	331,756	$	370,572
Liabilities					
	Current liabilities	$	3	$	9,985
	Deferred liabilities and credits		3,276		6,213
	Total liabilities	$	3,279	$	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 six months ended June 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 six months ended June 30, 2013.

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 Repurchases

TDS and U.S. Cellular Share Repurchases

Effective 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:

Six Months Ended June 30,		Number of Shares	Average Cost Per Share	Amount
(Dollars and shares in thousands, except cost per share)				
2013				
	TDS Common Shares	-	$ -	$ -
	U.S. Cellular Common Shares	496	37.16	18,425
2012				
	TDS Common Shares	-	$ -	$ -
	U.S. Cellular Common Shares	-	-	-

11. Noncontrolling Interests

The following schedule discloses the effects of Net income attributable to TDS shareholders and changes in TDS' ownership interest in U.S. Cellular on TDS' equity for the six months ended June 30, 2013 and 2012:

	Six Months Ended June 30,	
	2013	**2012**
(Dollars in thousands)		
Net income attributable to TDS shareholders	$ 157,496	$ 94,591
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	(9,712)	(8,318)
Change in TDS' Capital in excess of par value from U.S. Cellular's repurchase of U.S. Cellular shares	3,470	-
Net transfers (to) from noncontrolling interests	(6,242)	(8,318)
Change from net income attributable to TDS and transfers (to) from noncontrolling interests	$ 151,254	$ 86,273

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 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 June 30, 2013, net of estimated liquidation costs, is $33.5 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 June 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 six months ended June 30, 2013, reclassifications from Accumulated other comprehensive loss into Operating expenses, related to the retirement plan, were approximately $0.4 million (net of income tax of $0.2 million). Of this amount, $0.3 million was recorded as a decrease to Cost of services and products and $0.1 million was recorded as a decrease to Selling, general and administrative.

13. Business Segment Information

Financial data for TDS' business segments for the three and six month periods ended, or as of June 30, 2013 and 2012, is as follows. See Note 1 — Basis of Presentation for additional information.

		TDS Telecom							
Three Months Ended or as of June 30, 2013 (Dollars in thousands)	**U.S. Cellular**	**ILEC**	**CLEC**	**HMS**	**TDS Telecom Eliminations**	**TDS Telecom Total**	**Non-Reportable Segment**	**Other Reconciling Items**	**Total**
Operating revenues	$ 995,130	$ 142,473	$ 42,133	$ 41,374	$ (2,520)	$ 223,460	$ 14,363	$ (4,787)	$ 1,228,166
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	409,337	46,621	22,183	30,185	(2,088)	96,901	9,841	(348)	515,731
Selling, general and administrative	404,127	41,274	15,850	9,361	(432)	66,053	3,711	(3,171)	470,720
	202,580	37,972	5,221	5,563	-		1,500	1,367	254,203

Depreciation, amortization and accretion expense						48,756			
Loss on asset disposals, net	9,018	(850)	85	83	-	(682)	(1)	(16)	8,319
(Gain) loss on sale of business and other exit costs, net	(249,024)	-	-	-	-	-	-	(54,010)	(303,034)
Operating income (loss)	219,092	17,456	(1,206)	(3,818)	-	12,432	(688)	51,391	282,227
Equity in earnings of unconsolidated entities	35,602	7	-	-	-	7	-	(4)	35,605
Interest and dividend income	969	503	43	16	-	562	1	1,068	2,600
Gain (loss) on investments	18,527	-	-	-	-	-	-	(4,009)	14,518
(Interest expense) Capitalized interest	(10,154)	711	84	(403)	-	392	(1,001)	(12,986)	(23,749)
Other, net	321	(126)	-	-	-	(126)	(394)	2	(197)
Income before income taxes	264,357	18,551	(1,079)	(4,205)	-	13,267	(2,082)	35,462	311,004
Add back:									
Depreciation, amortization	202,580	37,972	5,221	5,563	-	48,756	1,500	1,367	254,203

and accretion expense									
(Gain) loss on sale of business and other exit costs, net	(249,024)	-	-	-	-	-	-	(54,010)	(303,034)
Gain (loss) on investments	(18,527)	-	-	-	-	-	-	4,009	(14,518)
(Interest expense) Capitalized interest	10,154	(711)	(84)	403	-	(392)	1,001	12,986	23,749
Adjusted income before income taxes	$ 209,540	$ 55,812	$ 4,058	$ 1,761	$ -	$ 61,631	$ 419	$ (186)	$ 271,404
Investments in unconsolidated entities	$ 276,363	$ 3,809	$ -	$ -	$ -	$ 3,809	$ -	$ 31,874	$ 312,046
Capital expenditures	$ 168,497	$ 29,421	$ 3,921	$ 2,258	$ -	$ 35,600	$ 232	$ 1,715	$ 206,044

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					TDS Telecom				
Three Months Ended or as of June 30, 2012 (Dollars in thousands)	**U.S. Cellular**	**ILEC**	**CLEC**	**HMS**	**TDS Telecom Eliminations**	**TDS Telecom Total**	**Non-Reportable Segment**	**Other Reconciling Items**	**Total**
Operating revenues	$ 1,104,400	$ 144,052	$ 44,200	$ 22,876	$ (2,609)	$ 208,519	$ 15,245	$ (4,995)	$ 1,323,169
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	434,927	47,180	22,702	15,090	(2,196)	82,776	10,533	(566)	527,670
Selling, general and administrative	435,053	43,216	16,769	6,635	(413)	66,207	4,222	(3,078)	502,404
Depreciation, amortization and accretion expense	147,555	37,834	5,466	4,645	-	47,945	1,569	1,440	198,509
Loss on impairment of assets	-	-	-	-	-	-	515	-	515
Loss on asset disposals, net	2,702	136	72	98	-	306	(10)	(3)	2,995
	84,163		(809)	(3,592)	-		(1,584)	(2,788)	91,076

Operating income (loss)		15,686				11,285			
Equity in earnings of unconsolidated entities	25,154	(8)	-	-	-	(8)	-	246	25,392
Interest and dividend income	845	799	72	5	-	876	2	629	2,352
Gain (loss) on investments	(3,728)	-	-	-	-	-	-	-	(3,728)
(Interest expense) Capitalized interest	(12,360)	815	53	(275)	-	593	(978)	(10,394)	(23,139)
Other, net	(229)	(140)	-	-	-	(140)	120	-	(249)
Income before income taxes	93,845	17,152	(684)	(3,862)	-	12,606	(2,440)	(12,307)	91,704
<u>Add back:</u>									
Depreciation, amortization and accretion expense	147,555	37,834	5,466	4,645	-	47,945	1,569	1,440	198,509
Gain (loss) on investments	3,728	-	-	-	-	-	-	-	3,728
(Interest expense) Capitalized interest	12,360	(815)	(53)	275	-	(593)	978	10,394	23,139
Adjusted income before income taxes	$ 257,488	$ 54,171	$ 4,729	$ 1,058	$ -	$ 59,958	$ 107	$ (473)	$ 317,080
Investments in unconsolidated	$ 175,663	$ 3,805	$ -	$ -	$ -	$ 3,805	$ -	$ 33,581	$ 213,049

entities									
Capital expenditures	$ 183,191	$ 32,492	$ 4,899	$ 5,550	$ -	$ 42,941	$ 219	$ (2,366)	$ 223,985

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		TDS Telecom							
Six Months Ended or as of June 30, 2013 (Dollars in thousands)	**U.S. Cellular**	**ILEC**	**CLEC**	**HMS**	**TDS Telecom Eliminations**	**TDS Telecom Total**	**Non-Reportable Segment**	**Other Reconciling Items**	**Total**
Operating revenues	$ 2,076,876	$ 283,993	$ 84,687	$ 76,938	$ (5,097)	$ 440,521	$ 28,809	$ (9,467)	$ 2,536,739
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	867,327	94,216	44,145	54,999	(4,274)	189,086	19,914	(704)	1,075,623
Selling, general and administrative	824,207	83,113	31,782	19,282	(823)	133,354	7,472	(7,410)	957,623
Depreciation, amortization and accretion expense	392,425	76,548	10,668	11,031	-	98,247	3,009	2,599	496,280
Loss on asset disposals, net	14,452	(728)	126	113	-	(489)	-	(28)	13,935
(Gain) loss on	(242,093)	-	-	-	-	-	-	(54,010)	(296,103)

sale of business and other exit costs, net									
Operating income (loss)	220,558	30,844	(2,034)	(8,487)	-	20,323	(1,586)	50,086	289,381
Equity in earnings of unconsolidated entities	62,437	14	-	-	-	14	-	243	62,694
Interest and dividend income	1,872	832	100	32	-	964	2	1,340	4,178
Gain (loss) on investments	18,527	-	-	-	-	-	-	(4,009)	14,518
(Interest expense) Capitalized interest	(21,064)	1,470	156	(808)	-	818	(1,983)	(26,018)	(48,247)
Other, net	106	(178)	-	(122)	-	(300)	(157)	-	(351)
Income before income taxes	282,436	32,982	(1,778)	(9,385)	-	21,819	(3,724)	21,642	322,173
Add back:									
Depreciation, amortization and accretion expense	392,425	76,548	10,668	11,031	-	98,247	3,009	2,599	496,280
(Gain) loss on sale of business and other exit	(242,093)	-	-	-	-	-	-	(54,010)	(296,103)

costs, net									
Gain (loss) on investments	(18,527)	-	-	-	-	-	-	4,009	(14,518)
(Interest expense) Capitalized interest	21,064	(1,470)	(156)	808	-	(818)	1,983	26,018	48,247
Adjusted income before income taxes	$ 435,305	$ 108,060	$ 8,734	$ 2,454	$ -	$ 119,248	$ 1,268	$ 258	$ 556,079
Investments in unconsolidated entities	$ 276,363	$ 3,809	$ -	$ -	$ -	$ 3,809	$ -	$ 31,874	$ 312,046
Capital expenditures	$ 286,907	$ 51,805	$ 9,402	$ 4,849	$ -	$ 66,056	$ 517	$ 2,700	$ 356,180

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Six Months Ended or as of June 30, 2012 (Dollars in thousands)	**U.S. Cellular**	**TDS Telecom**					**Non-Reportable Segment**	**Other Reconciling Items**	**Total**
		ILEC	**CLEC**	**HMS**	**TDS Telecom Eliminations**	**TDS Telecom Total**			
Operating revenues	$ 2,196,521	$ 289,117	$ 88,244	$ 40,434	$ (5,201)	$ 412,594	$ 30,014	$ (10,169)	$ 2,628,960
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	855,127	96,348	45,266	24,864	(4,357)	162,121	20,738	(1,105)	1,036,881
Selling, general and administrative	877,297	84,730	33,029	13,367	(844)	130,282	8,408	(5,984)	1,010,003
Depreciation, amortization and accretion expense	294,240	75,612	10,955	8,821	-	95,388	3,099	3,216	395,943
Loss on impairment of assets	-	-	-	-	-	-	515	-	515
Loss on asset disposals,	4,705	163	125	99	-	387	(10)	(8)	5,074

net									
(Gain) loss on sale of business and other exit costs, net	(4,213)	39	-	-	-	39	-	-	(4,174)
Operating income (loss)	169,365	32,225	(1,131)	(6,717)	-	24,377	(2,736)	(6,288)	184,718
Equity in earnings of unconsolidated entities	46,768	(2)	-	-	-	(2)	-	2,015	48,781
Interest and dividend income	1,888	1,429	143	7	-	1,579	4	1,064	4,535
Gain (loss) on investments	(3,728)	-	-	-	-	-	-	-	(3,728)
(Interest expense) Capitalized interest	(25,771)	1,270	142	(516)	-	896	(1,949)	(20,779)	(47,603)
Other, net	(27)	(296)	-	-	-	(296)	302	-	(21)
Income before income taxes	188,495	34,626	(846)	(7,226)	-	26,554	(4,379)	(23,988)	186,682
Add back:									
Depreciation, amortization and accretion expense	294,240	75,612	10,955	8,821	-	95,388	3,099	3,216	395,943
(Gain) loss on sale of business and other	(4,213)	39	-	-	-	39	-	-	(4,174)

exit costs, net									
Gain (loss) on investments	3,728	-	-	-	-	-	-	-	3,728
(Interest expense) Capitalized interest	25,771	(1,270)	(142)	516	-	(896)	1,949	20,779	47,603
Adjusted income before income taxes	$ 508,021	$ 109,007	$ 9,967	$ 2,111	$ -	$ 121,085	$ 669	$ 7	$ 629,782
Investments in unconsolidated entities	$ 175,663	$ 3,805	$ -	$ -	$ -	$ 3,805	$ -	$ 33,581	$ 213,049
Capital expenditures	$ 384,528	$ 60,018	$ 9,958	$ 8,641	$ -	$ 78,617	$ 435	$ (11,131)	$ 452,449

Adjusted income before income taxes is a segment measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. Adjusted income before income taxes is defined as Income before income taxes, adjusted for: Depreciation, amortization and accretion; net Gain or loss on sale of business and other exit costs (if any); net Gain or loss on investment (if any); and Interest expense. Adjusted income before income taxes excludes these items in order to show operating results on a more comparable basis from period to period. In the future, TDS may also exclude other items from adjusted income before income taxes if such items may help reflect operating results on a more comparable basis. TDS does not intend to imply that any of such amounts that are excluded are non-recurring, infrequent or unusual; such amounts may occur in the future.

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

	Six Months Ended June 30,	
	2013	**2012**
(Dollars and shares in thousands)		
Common Shares withheld	2	-
Special Common Shares withheld	-	1
Aggregate value of Common Shares withheld	$ 45	$ 5
Aggregate value of Special Common Shares withheld	$ -	$ 33
Cash receipts upon exercise of stock options	$ 821	$ -
Cash disbursements for payment of taxes	(45)	(39)
Net cash receipts (disbursements) from exercise of stock options and vesting of other stock awards	$ 776	$ (39)

U.S. Cellular

	Six Months Ended June 30,	
	2013	**2012**
(Dollars and shares in thousands)		
Common Shares withheld	133	78
Aggregate value of Common Shares withheld	$ 4,782	$ 3,076
Cash receipts upon exercise of stock options	$ 1,039	$ 627
Cash disbursements for payment of taxes	(3,245)	(3,092)
Net cash receipts (disbursements) from exercise of stock options and vesting of other stock awards	$ (2,206)	$ (2,465)

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 $34.6 million and $6.5 million in grants during the six months ended June 30, 2013 and 2012, respectively. TDS Telecom has received cumulative grants of $56.2 million as of June 30, 2013. These funds reduced the carrying amount of the assets to which they relate. TDS Telecom had recorded $14.9 million and $7.8 million in grants receivable at June 30, 2013 and 2012, respectively. These amounts were included as a component of Accounts receivable, Other, in the Consolidated Balance Sheet.

TDS declared and paid dividends on Series A Common and Common Shares of $27.6 million or $0.2550 per share during the six months ended June 30, 2013 and $26.6 million or $0.2450 per share during the six months ended June 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.

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 5.0 million wireless customers and 1.0 million wireline customer connections at June 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 through its incumbent local exchange carrier ("ILEC") and competitive local exchange carrier ("CLEC"), and provides 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 six months ended June 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.

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 5.0 million customers in four geographic market areas in 23 states. As of June 30, 2013, U.S. Cellular's average penetration rate in its consolidated operating markets was 15.6%. 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 six months ended June 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, 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 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 4,968,000 at June 30, 2013, including 4,793,000 retail customers (96% 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 47,000 in 2013 compared to net losses of 22,000 in 2012. In the postpaid category, there were net losses of 86,000 in 2013, compared to net losses of 50,000 in 2012. Prepaid net additions were 39,000 in 2013 compared to net additions of 28,000 in 2012.

- Postpaid customers comprised approximately 92% of U.S. Cellular's retail customers as of June 30, 2013. The postpaid churn rate was 1.6% in 2013 compared to 1.4% in 2012. The prepaid churn rate was 5.8% in 2013 compared to 5.5% in 2012.

- Billed average revenue per user ("ARPU") increased to $50.97 in 2013 from $50.44 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 $57.52 in 2013 from $58.50 in 2012 due primarily to decreases in inbound roaming and eligible telecommunications carriers ("ETC") revenues.

- Postpaid customers on smartphone service plans increased to 46% as of June 30, 2013 compared to 36% as of June 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 of $1,686.4 million decreased $91.3 million year-over-year, due to a lower average number of postpaid customers and the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation, partially offset by a higher average number of prepaid customers. Total service revenues of $1,907.3 million decreased $146.2 million year-over-year, due primarily to these factors, decreases in inbound roaming due to rate reductions and ETC revenues.

- U.S. Cellular initiated 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. The migration is expected to be completed during the third quarter of 2013.

- Total additions to Property, plant and equipment were $286.9 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 2% year-over-year to 7,748 primarily as a result of the NY1 & NY2 Deconsolidation.

- Operating income increased $51.2 million, or 30%, to $220.6 million in 2013. The increase was due primarily to the gain from the Divestiture Transaction partially offset by lower service revenues and higher cost of equipment sold and higher depreciation expense in connection with the Divestiture Transaction.

- In March 2013, U.S. Cellular entered into an agreement with Apple to purchase Apple iPhone products over three years beginning later in 2013.

U.S. Cellular anticipates that its future results will 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 such as Walmart and Sam’s Club;

- 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;

- Costs of developing and enhancing office and customer support systems, including costs and risks associated with the completion and potential benefits of multi-year initiatives;

- 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 data roaming agreements, including 4G LTE, with other wireless operators;

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

- U.S. Cellular has entered into a definitive agreement to sell the majority of its Mississippi Valley non-operating market license ("unbuilt license") for $308.0 million. The transaction is subject to regulatory approval and is expected to close by the end of 2013. U.S. Cellular expects to recognize a gain of $252.2 million on this transaction. In addition, the U.S. Cellular Board of Directors approved the sale of U.S. Cellular's St. Louis area unbuilt license. See Note 5 – Acquisitions, Divestitures and Exchanges in the Notes to the Consolidated Financial Statements for additional information related to these transactions.

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 adva