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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from to

Commission file number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**36-2669023**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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 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	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 September 30, 2013
Common Shares, $0.01 par value	101,334,304 Shares
Series A Common Shares, $0.01 par value	7,156,880 Shares

Telephone and Data Systems, Inc.

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

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Part I. Financial Information

Item 1. Financial Statements

Telephone and Data Systems, Inc.

Consolidated Statement of Operations

(Unaudited)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(Dollars and shares in thousands, except per share amounts)	**2013**	**2012**	**2013**	**2012**
Operating revenues	$ 1,180,980	$ 1,370,108	$ 3,717,719	$ 3,999,068
Operating expenses				
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	481,285	600,459	1,556,908	1,637,340
Selling, general and administrative	476,864	506,217	1,434,487	1,516,220
Depreciation, amortization and accretion	255,295	196,219	751,575	592,162
Loss on impairment of assets	-	-	-	515
Loss on asset disposals, net	2,155	11,642	16,090	16,716
(Gain) loss on sale of business and other exit costs, net	(1,534)	65	(297,637)	(4,109)
Total operating expenses	1,214,065	1,314,602	3,461,423	3,758,844
Operating income (loss)	(33,085)	55,506	256,296	240,224
Investment and other income (expense)				
Equity in earnings of unconsolidated entities	37,609	25,015	100,303	73,796
Interest and dividend income	2,507	2,359	6,685	6,894
Gain (loss) on investments	-	-	14,518	(3,728)

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

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

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Telephone and Data Systems, Inc.

Consolidated Statement of Comprehensive Income

(Unaudited)

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

to TDS shareholders															

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

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Telephone and Data Systems, Inc.

Consolidated Statement of Cash Flows

(Unaudited)

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

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

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

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Telephone and Data Systems, Inc.

Consolidated Balance Sheet — Assets

(Unaudited)

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

Other assets and deferred charges	140,109		133,150
Total assets	$ 8,699,700		$ 8,623,900

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

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Telephone and Data Systems, Inc.

Consolidated Balance Sheet — Liabilities and Equity

(Unaudited)

(Dollars and shares in thousands)		September 30, 2013		December 31, 2012
Current liabilities				
Current portion of long-term debt	$	1,806	$	1,233
Accounts payable		398,867		377,291
Customer deposits and deferred revenues		244,526		222,345
Accrued interest		15,799		6,565
Accrued taxes		107,183		48,237
Accrued compensation		97,266		134,932
Other current liabilities		142,851		134,005
		1,008,298		924,608
Liabilities held for sale		471		19,594
Deferred liabilities and credits				
Net deferred income tax liability		851,396		862,580
Other deferred liabilities and credits		445,596		438,727
Long-term debt		1,721,085		1,721,571
Commitments and contingencies		-		-
Noncontrolling interests with redemption features		540		493
Equity				
TDS shareholders' equity				
Series A Common and Common Shares				
Authorized 290,000 shares (25,000 Series A Common and 265,000 Common Shares)				
Issued 132,702 shares (7,157 Series A Common and 125,545 Common Shares) and 132,672 shares (7,160 Series A Common and 125,512 Common Shares), respectively				
Outstanding 108,491 shares (7,157 Series A Common and 101,334 Common Shares) and 108,031 shares (7,160 Series A Common and				

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

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

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**	**$ 4,656,32**
Add (Deduct)									
Net income attributable to TDS shareholders	-	-	-	-	147,984	147,984	-	-	147,98
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	-	-	26,301	26,30
Net unrealized gain	-	-	-	51	-	51	-	-	5

(loss) on equity investments									
Change in foreign currency translation adjustment	-	-	-	(19)	-	(19)	-	-	(1
Change related to retirement plan	-	-	-	(556)	-	(556)	-	-	(55
TDS Common and Series A Common Share dividends	-	-	-	-	(41,393)	(41,393)	-	-	(41,39
TDS Preferred dividend requirement	-	-	-	-	(37)	(37)	-	-	(3
U.S. Cellular dividends paid to noncontrolling public shareholders	-	-	-	-	-	-	-	(75,235)	(75,23
Repurchase of Common Shares	-	-	(5,813)	-	-	(5,813)	-	-	(5,81
	-	671	11,751	-	(5,964)	6,458	-	-	6,45

Dividend reinvestment plan									
Incentive and compensation plans	-	532	16,584	-	(9,143)	7,973	-	-	7,97
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	-	(2,399)	-	-	-	(2,399)	-	(4,462)	(6,86
Stock-based compensation awards	-	10,381	-	-	-	10,381	-	-	10,38
Tax windfall (shortfall) from stock awards	-	(1,002)	-	-	-	(1,002)	-	-	(1,00
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(3,447)	(3,44
Adjust investment in subsidiaries for noncontrolling interest	-	(10,322)	-	-	-	(10,322)	-	5,294	(5,02

purchases																	
Deconsolidation of partnerships		-		-		-		-		-		-		-		(43,770)	(43,77
September 30, 2013	**$**	**1,327**	**$**	**2,301,983**	**$**	**(727,577)**	**$**	**(8,656)**	**$**	**2,555,765**	**$**	**4,122,842**	**$**	**825**	**$**	**548,647**	**$ 4,672,31**

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

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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, 2011	**$ 1,326**	**$ 2,268,711**	**$ (750,921)**	**$ (8,854)**	**$ 2,451,899**	**$ 3,962,161**	**$ 830**	**$ 639,688**	**$ 4,602,67**
Add (Deduct)									
Net income attributable to TDS shareholders	-	-	-	-	123,708	123,708	-	-	123,70
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	-	-	39,949	39,94
Net unrealized gain	-	-	-	49	-	49	-	-	4

(loss) on equity investments									
Change related to retirement plan	-	-	-	462	-	462	-	-	46
TDS Common and Series A Common Share dividends	-	-	-	-	(39,893)	(39,893)	-	-	(39,893
TDS Preferred dividend requirement	-	-	-	-	(37)	(37)	-	-	(37
Repurchase of Preferred Shares	-	-	-	-	(16)	(16)	(4)	-	(20
Dividend reinvestment plan	-	862	10,066	-	(6,067)	4,861	-	-	4,86
Incentive and compensation plans	-	444	1,295	-	(1,385)	354	-	-	35
Adjust investment in subsidiaries for repurchases, issuances and	-	7,581	-	-	-	7,581	-	9,421	17,00

other compensation plans									
Stock-based compensation awards	-	15,518	-	-	-	15,518	-	-	15,51
Tax windfall (shortfall) from stock awards	-	(108)	-	-	-	(108)	-	-	(108
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(1,491)	(1,491
Other	-	-	-	-	-	-	-	57	5
September 30, 2012	**$ 1,326**	**$ 2,293,008**	**$ (739,560)**	**$ (8,343)**	**$ 2,528,209**	**$ 4,074,640**	**$ 826**	**$ 687,624**	**$ 4,763,09**

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, 2012.

Previously, TDS had reported the following reportable segments: U.S. Cellular, TDS Telecom's incumbent local exchange carrier ("ILEC"), its competitive local exchange carrier ("CLEC"), its Hosted and Managed Services ("HMS") operations and the Non-Reportable Segment which includes TDS' majority-owned printing and distribution company, Suttle-Straus, Inc. ("Suttle-Straus") and TDS' wholly-owned wireless telephone subsidiary, Airadigm Communications, Inc. ("Airadigm"). As a result of recent acquisitions and changes in TDS' strategy, operations and internal reporting, TDS has reevaluated and changed its operating segments during the quarter ended September 30, 2013, which resulted in the following reportable segments: U.S. Cellular, TDS Telecom's Wireline, Cable and HMS operations, and the Non-Reportable Segment. The Wireline segment consists of the former ILEC and CLEC segments. The Cable segment consists of Baja Broadband, LLC ("Baja"), which was acquired in August 2013. Periods presented for comparative purposes have been re-presented to conform to the revised presentation described above. All of TDS' segments operate only in the United States, except for HMS, which includes an insignificant foreign operation.

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

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items, unless otherwise disclosed) necessary for a fair statement of the financial position as of September 30, 2013 and December 31, 2012, and the results of operations and changes in comprehensive income (loss) for the three and nine months ended September 30, 2013 and 2012 and cash flows and changes in equity for the nine months ended September 30, 2013 and 2012. These results are not necessarily indicative of the results to be expected for the full year.

Recently Issued Accounting Pronouncements

On July 18, 2013, the FASB issued Accounting Standards Update 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss 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.

Impairment of Long-lived Assets

TDS reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the assets might be impaired. The impairment test for tangible long-lived assets is a two-step process. The first step compares the carrying value of the asset (or asset group) with the estimated undiscounted cash flows over the remaining asset (or asset group) life. If the carrying

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

U.S. Cellular has one asset group for purposes of assessing property, plant and equipment for impairment based on the fact that the individual operating markets are reliant on centrally operated data centers, mobile telephone switching offices, network operations center and wide-area network. As a result, U.S. Cellular operates a single integrated national wireless network, and the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities represent cash flows generated by this single interdependent network.

TDS Telecom has five asset groups for purposes of assessing property, plant and equipment for impairment based on their integrated network, assets and operations. The cash flows generated by each of these asset groups is the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities.

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

Amounts Collected from Customers and Remitted to Governmental Authorities

If a tax is assessed upon the customer and TDS merely acts as an agent in collecting the tax on behalf of the imposing governmental authority, then amounts collected from customers and remitted to governmental authorities are recorded on a net basis within a tax liability account in the Consolidated Balance Sheet. If the tax is assessed upon TDS, then amounts collected from customers as recovery of the tax are recorded in Operating revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled $31.6 million and $99.0 million for the three and nine months ended September 30, 2013, respectively, and $36.2 million and $114.7 million for the three and nine months ended September 30, 2012, respectively.

2. Fair Value Measurements

As of September 30, 2013 and December 31, 2012, TDS did not have any financial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP. However, TDS has applied the provisions of fair value accounting for purposes of computing the fair value of financial instruments for disclosure purposes as displayed below.

	Level within the Fair Value Hierarchy	September 30, 2013		December 31, 2012	
		Book Value	Fair Value	Book Value	Fair Value
(Dollars in thousands)					
Cash and cash equivalents	1	$ 711,089	$ 711,089	$ 740,481	$ 740,481
Short-term investments					
U.S. Treasury Notes	1	45,162	45,162	115,700	115,700
Long-term investments					
U.S. Treasury Notes	1	40,099	40,154	50,305	50,339
Long-term debt					
Retail	1	1,178,250	1,116,630	1,178,250	1,238,204
Institutional and other	2	537,521	517,126	538,657	589,435

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

The fair values of Cash and cash equivalents and Short-term investments approximate their book values due to the short-term nature of these financial instruments. The fair values of Long-term investments were estimated using quoted market prices for the individual issuances. The fair value of “Retail” Long-term debt was estimated using market prices for TDS’ 7.0% Senior Notes, 6.875% Senior Notes, 6.625% Senior Notes and 5.875% Senior Notes, and U.S. Cellular's 6.95% Senior Notes. TDS’ institutional debt includes U.S. Cellular’s 6.7% Senior Notes which are traded over the counter. TDS estimated the fair value of

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its institutional and other debt through a discounted cash flow analysis using the interest rates or estimated yield to maturity for each borrowing, which ranged from 0.0% to 7.25% at September 30, 2013.

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

3. Income Taxes

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

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

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

4. Earnings Per Share

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

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

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

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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. Outstanding U.S. Cellular stock options and restricted stock unit awards were equitably adjusted for the special cash dividend. The impact of such adjustments on the earnings per share calculation was reflected in the three and nine months ended September 30, 2012.

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

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

5. Acquisitions, Divestitures and Exchanges

TDS assesses its business interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on investment. As part of this strategy, TDS reviews attractive opportunities to acquire additional wireless operating markets and wireless spectrum; and telecommunications, cable, HMS or other possible businesses. In addition, TDS may seek to divest outright or include in exchanges for other interests those interests that are not strategic to its long-term success.

Acquisitions did not have a material impact on TDS' consolidated financial statements for the periods presented and pro forma results, assuming acquisitions had occurred at the beginning of each period presented, would not be materially different from the results reported.

Divestiture Transaction

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

U.S. Cellular has retained other assets and liabilities related to the Divestiture Markets, including network assets, retail stores and related equipment, and other buildings and facilities. The transaction does not affect spectrum licenses held by U.S. Cellular or variable interest entities ("VIEs") that are not currently used in the operations of the Divestiture Markets. Pursuant to the Purchase and Sale Agreement, U.S. Cellular and Sprint also entered into certain other agreements, including customer and network transition services agreements, which require U.S. Cellular to provide customer, billing and network services to Sprint for a period of up to 24 months after the May 16, 2013 closing date. Sprint will reimburse U.S. Cellular for providing such services at an amount equal to U.S. Cellular's cost, including applicable overhead allocations. In addition, these agreements require Sprint to reimburse U.S. Cellular up to $200 million (the "Sprint Cost Reimbursement") for certain network decommissioning costs, network site lease rent and termination costs, network access termination costs, and employee termination benefits for specified engineering employees. It is estimated that up to $160 million of the Sprint Cost Reimbursement will be recorded in (Gain) loss on sale of business and other exit costs, net and up to $40 million of the Sprint Cost Reimbursement will be recorded in Cost of services and products in the Consolidated Statement of Operations. For the nine months ended September 30, 2013, $1.1 million of the Sprint Cost Reimbursement had been received and recorded in Cash received from divestitures in the Consolidated Statement of Cash Flows.

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Financial impacts of the Divestiture Transaction are classified in the Consolidated Statement of Operations within Operating income (loss). 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 September 30, 2013	Actual Amount Recognized Nine Months Ended September 30, 2013	Actual Amount Recognized Three Months Ended September 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)	$ -
Sprint Cost Reimbursement	2013-2014	(120,000)	(160,000)	(4,221)	(4,221)	(4,213)
Net assets transferred	2013	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	10,000	14,000	10,726	54	(27)
Employee related costs including severance, retention and	2012-2014	15,000	20,000	15,071	2,462	(641)

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

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

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As a result of the transaction, TDS recognized the following amounts in the Consolidated Balance Sheet:

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

(1) Cash settlement amounts are included in either the Net income or changes in Other assets and liabilities line items as part of Cash flows from operating activities on the Consolidated Statement of Cash Flows.

(2) Adjustment to liability represents changes to previously accrued amounts.

Other Acquisitions, Divestitures and Exchanges

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

On October 4, 2013, U.S. Cellular sold the majority of its Mississippi Valley non-operating market license (“unbuilt license”) for $308.0 million. The sale will result in a $252.2 million gain and a $96.0 million current tax expense, which will be recorded in the fourth quarter of 2013. In addition, on August 14, 2013 U.S. Cellular entered into a definitive agreement to sell the majority of its St. Louis area unbuilt license for $92.3 million. This transaction is subject to regulatory approval and is expected to close by the end of 2013. In accordance with GAAP, the book value of both licenses has been accounted for and disclosed as "held for sale" in the Consolidated Balance Sheet at September 30, 2013.

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

	Purchase Price (1)	Goodwill (2)	Licenses	Franchise Rights	Intangible Assets Subject to Amortization (3)	Net Tangible Assets/(Liabilities)
		Allocation of Purchase Price				
(Dollars in thousands)						
2013						
U.S. Cellular licenses	$ 16,540	$ -	$ 16,540	$ -	$ -	$ -
TDS Telecom Cable business	264,089	61,270	-	123,668	11,542	67,609
Total	$ 280,629	$ 61,270	$ 16,540	$ 123,668	$ 11,542	$ 67,609
2012						
U.S. Cellular licenses	$ 57,957	$ -	$ 57,957	$ -	$ -	$ -
TDS Telecom HMS business	46,126	20,364	-	-	20,300	5,462
Total	$ 104,083	$ 20,364	$ 57,957	$ -	$ 20,300	$ 5,462

(1) Cash amounts paid for acquisitions may differ from the purchase price due to cash acquired in the transactions and the timing of cash payments related to the respective transactions.

(2) The entire amount of Goodwill acquired in 2013 and 2012 was amortizable for income tax purposes.

(3) At the date of acquisition, the weighted average amortization period for Intangible Assets Subject to Amortization acquired was 2.9 years in 2013 and 8.1 years in 2012.

At September 30, 2013 and December 31, 2012, the following assets and liabilities were classified in the Consolidated Balance Sheet as "Assets held for sale" and "Liabilities held for sale":

	Current Assets	Licenses	Goodwill	Property, Plant and Equipment	Loss on Assets Held for Sale (1)	Total Assets Held for Sale	Liabilities Held for Sale (2)

(Dollars in thousands)							
September 30, 2013							
Divestiture of Missouri Market (3)	$ 726	$ 2,909	$ 178	$ 3,179	(1,116)	$ 5,876	$ 471
Divestiture of Spectrum Licenses (4)	-	72,537	-	-	-	72,537	-
Total	$ 726	$ 75,446	$ 178	$ 3,179	$ (1,116)	$ 78,413	$ 471
December 31, 2012							
Divestiture Transaction	$ -	$ 140,599	$ 19,474	$ -	$ -	$ 160,073	$ 19,594
Bolingbrook Customer Care Center (5)	-	-	-	4,274	(1,105)	3,169	-
Total	$ -	$ 140,599	$ 19,474	$ 4,274	$ (1,105)	$ 163,242	$ 19,594

(1) Loss on assets held for sale was recorded in (Gain) loss on sale of business and other exit costs, net in the Consolidated Statement of Operations.

(2) Liabilities held for sale primarily consisted of Customer deposits and deferred revenues.

(3) On May 15, 2013, U.S. Cellular entered into an agreement with a third party to sell the subscribers, spectrum and the network assets for a Missouri market.

(4) U.S. Cellular and/or its consolidated VIEs entered into agreements with third parties to sell unbuilt licenses in Mississippi Valley; St. Louis, MO; South Bend-Mishawaka, IN and Jackson, MI.

(5) Effective January 1, 2013, U.S. Cellular transferred its Bolingbrook Customer Care Center operations to an existing third party vendor.

6. Intangible Assets

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Changes in TDS' Licenses and Goodwill for the nine months ended September 30, 2013 and 2012 are presented below. Previously under GAAP, TDS accounted for U.S. Cellular's share repurchases as step acquisitions, allocating a portion of the share repurchase value to TDS' Licenses and Goodwill. Consequently, U.S. Cellular's Licenses and Goodwill on a stand-alone basis do not equal the TDS consolidated Licenses and Goodwill related to U.S. Cellular.

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

Licenses								
	U.S. Cellular		TDS Telecom Wireline		Non-Reportable Segment		Total	
(Dollars in thousands)								
Balance December 31, 2012	$	1,462,019	$	2,800	$	15,220	$	1,480,039
Acquisitions		16,540		-		-		16,540
Transferred to Assets held for sale		(75,446)		-		-		(75,446)
NY1 & NY2 Deconsolidation		(592)		-		-		(592)
Balance September 30, 2013	$	1,402,521	$	2,800	$	15,220	$	1,420,541
Balance December 31, 2011	$	1,475,994	$	2,800	$	15,220	$	1,494,014
Acquisitions		57,957		-		-		57,957
Other		3,147		-		-		3,147
Balance September 30, 2012	$	1,537,098	$	2,800	$	15,220	$	1,555,118

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

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

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

7. Investments in Unconsolidated Entities

Investments in unconsolidated entities consist of amounts invested in wireless and wireline entities in which TDS holds a noncontrolling interest. These investments are accounted for using either the equity or cost method.

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

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

The following table, which is based on information provided in part by third parties, summarizes the combined results of operations of TDS' equity method investments. Such combined results of operations include the results of the NY1 & NY2 Partnerships from April 3, 2013, the effective date of their deconsolidation as discussed below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
(Dollars in thousands)				
Revenues	$ 1,583,640	$ 1,451,642	$ 4,632,100	$ 4,314,727
Operating expenses	1,130,717	1,067,915	3,302,886	3,164,334
Operating income	452,923	383,727	1,329,214	1,150,393
Other income, net	656	(334)	1,791	1,304
Net income	$ 453,579	$ 383,393	$ 1,331,005	$ 1,151,697

NY1 & NY2 Deconsolidation

U.S. Cellular holds a 60.00% interest in NY1 and a 57.14% interest in NY2 (together with NY1, the "Partnerships"). The remaining interests in the Partnerships are held by Cellco Partnership d/b/a Verizon Wireless ("Verizon Wireless"). The Partnerships are operated by Verizon Wireless under the Verizon Wireless brand. Prior to April 3, 2013, because U.S. Cellular owned a greater than 50% interest in each of these Partnerships and based on U.S. Cellular's rights under the Partnership Agreements, TDS consolidated the financial results of these Partnerships in accordance with GAAP.

On April 3, 2013, U.S. Cellular entered into an agreement relating to the Partnerships. The agreement amends the Partnership Agreements in several ways which provide Verizon Wireless with substantive participating rights that allow Verizon Wireless to make decisions that are in the ordinary course of business of the Partnerships and which are significant to directing and executing the activities of the business. Accordingly, as required by GAAP, TDS deconsolidated the Partnerships effective as of April 3, 2013 and thereafter reported them as equity method investments in its consolidated financial statements. After the NY1 & NY2 Deconsolidation, TDS retained the same ownership percentages in the Partnerships and will continue to report the same percentages of income from the Partnerships, which will be recorded in Equity in earnings of unconsolidated entities in the Consolidated Statement of Operations. In addition to the foregoing described arrangements, TDS and U.S. Cellular have certain other arm's length, ordinary business relationships with Verizon Wireless and its affiliates.

In accordance with GAAP, as a result of the NY1 & NY2 Deconsolidation, TDS' interest in the Partnerships was reflected in Investments in unconsolidated entities at a fair value of $114.8 million as of April 3, 2013. Recording TDS' interest in the Partnerships required allocation of the excess of fair value over book value to customer lists, licenses, a favorable contract and goodwill of the Partnerships. Amortization expense related to customer lists and the favorable contract will be recognized over their respective useful lives and is included in Equity in earnings of unconsolidated entities in the Consolidated Statement of Operations. In addition, TDS recognized a non-cash pre-tax gain of $14.5 million in the second quarter of 2013. The gain was recorded in Gain on investments in the Consolidated Statement of Operations.

The Partnerships were valued using a discounted cash flow approach and a publicly-traded guideline company method. The discounted cash flow approach uses value drivers and risks specific to the industry and current economic factors. The cash flow estimates incorporated assumptions that market participants would use in their estimates of fair value and may not be indicative of TDS specific assumptions. The most significant assumptions made in this process were the revenue growth rate (shown as a simple average in the table below), the terminal revenue growth rate, discount rate and capital expenditures. The assumptions were as follows:

Key assumptions		
Average expected revenue growth rate (next ten years)	2.0	%
Terminal revenue growth rate (after year ten)	2.0	%
Discount rate	10.5	%
Capital expenditures as a percentage of revenue	14.9-18.8	%

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

8. Commitments, Contingencies and Other Liabilities

Agreements

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

Indemnifications

TDS enters into agreements in the normal course of business that provide for indemnification of counterparties. The terms of the indemnifications vary by agreement. The events or circumstances that would require TDS to perform under these indemnities are transaction specific; however, these agreements may require TDS to indemnify the counterparty for costs and losses incurred from litigation or claims arising from the underlying transaction. TDS is unable to estimate the maximum potential liability for these types of indemnifications as the amounts are dependent on the outcome of future events, the nature and likelihood of which cannot be determined at this time. Historically, TDS has not made any significant indemnification payments under such agreements.

Legal Proceedings

TDS is involved or may be involved from time to time in legal proceedings before the Federal Communications Commission ("FCC"), other regulatory authorities, and/or various state and federal courts. If TDS believes that a loss arising from such legal proceedings is probable and can be reasonably estimated, an amount is accrued in the financial statements for the estimated loss. If only a range of loss can be determined, the best estimate within that range is accrued; if none of the estimates within that range is better than another, the low end of the range is accrued. The assessment of the expected outcomes of legal proceedings is a highly subjective process that requires judgments about future events. The legal proceedings are reviewed at least quarterly to determine the adequacy of accruals and related financial statement disclosures. The ultimate outcomes of legal proceedings could differ materially from amounts accrued in the financial statements.

TDS has accrued $1.7 million with respect to legal proceedings and unasserted claims as of both September 30, 2013 and December 31, 2012. TDS has not accrued any amount for legal proceedings if it cannot reasonably estimate the amount of the possible loss or range of loss. TDS does not believe that the amount of any contingent loss in excess of the amounts accrued would be material.

Apple iPhone Products Purchase Commitment

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

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9. Variable Interest Entities (VIEs)

Consolidated VIEs

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

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

The power to direct the activities that most significantly impact the economic performance of Aquinas Wireless and King Street Wireless (collectively, the "limited partnerships") is shared. Specifically, the general partner of these VIEs has the exclusive right to manage, operate and control the limited partnerships and make all decisions to carry on the business of the partnerships; however, the general partner of each partnership needs consent of the limited partner, a TDS subsidiary, to sell or lease certain licenses, to make certain large expenditures, admit other partners or liquidate the limited partnerships. Although the power to direct the activities of the VIEs is shared, TDS has a disproportionate level of exposure to the variability associated with the economic performance of the VIEs, indicating that TDS is the primary beneficiary of the VIEs in accordance with GAAP. Accordingly, these VIEs are consolidated.

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

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

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

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

Other Related Matters

Aquinas Wireless and King Street Wireless were formed to participate in FCC auctions of wireless spectrum and to fund, establish, and provide wireless service with respect to any FCC licenses won in the auctions. As such, these entities have risks similar to the business risks described in the “Risk Factors” in TDS’ Form 10-K for the year ended December 31, 2012.

TDS may agree to make additional capital contributions and/or advances to Aquinas Wireless and King Street Wireless and/or to their general partners to provide additional funding for the development of licenses granted in various auctions. TDS may finance such amounts with a combination of cash on hand, borrowings under its revolving credit agreement and/or long-term debt. There is no assurance that TDS will be able to obtain additional financing on commercially reasonable terms or at all to provide such financial support.

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

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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

On August 2, 2013, the Board of Directors of TDS authorized a $250 million stock repurchase program for the purchase of TDS Common Shares from time to time pursuant to open market purchases, block transactions, private purchases or otherwise, depending on market conditions. This authorization does not have an expiration date. In 2012, TDS had a prior share repurchase authorization for $250 million that expired on November 19, 2012.

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

Share repurchases made under these authorizations were as follows:

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

11. Noncontrolling Interests

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

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

Mandatorily Redeemable Noncontrolling Interests in Finite-Lived Subsidiaries

TDS' consolidated financial statements include certain noncontrolling interests that meet the GAAP definition of mandatorily redeemable financial instruments. These mandatorily redeemable noncontrolling interests represent interests held by third parties in consolidated partnerships and limited liability companies ("LLCs"), where the terms of the underlying partnership or LLC agreement provide for a defined termination date at which time the assets of the subsidiary are to be sold, the liabilities are to be extinguished and the remaining net proceeds are to be distributed to the noncontrolling interest holders and TDS in accordance

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

The estimated aggregate amount that would be due and payable to settle all of these noncontrolling interests, assuming an orderly liquidation of the finite-lived consolidated partnerships and LLCs on September 30, 2013, net of estimated liquidation costs, is $39.7 million. This amount excludes redemption amounts recorded in Noncontrolling interests with redemption features in the Consolidated Balance Sheet. The estimate of settlement value was based on certain factors and assumptions which are subjective in nature. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount. TDS currently has no plans or intentions relating to the liquidation of any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the mandatorily redeemable noncontrolling interests in finite-lived consolidated partnerships and LLCs at September 30, 2013 was $10.0 million, and is included in Noncontrolling interests in the Consolidated Balance Sheet. The excess of the aggregate settlement value over the aggregate carrying value of these mandatorily redeemable noncontrolling interests is due primarily to the unrecognized appreciation of the noncontrolling interest holders' share of the underlying net assets in the consolidated partnerships and LLCs. Neither the noncontrolling interest holders' share, nor TDS' share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements.

12. Reclassification Adjustments Out of Accumulated Other Comprehensive Loss

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

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13. Business Segment Information

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

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

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

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

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

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

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

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		TDS Telecom								
Nine Months Ended or as of September 30, 2013	**U.S. Cellular**	**Wireline**	**Cable**	**HMS**	**TDS Telecom Eliminations**	**TDS Telecom Total**	**Non-Reportable Segment**	**Other Reconciling Items**	**Total**
(Dollars in thousands)									
Operating revenues	$ 3,016,112	$ 545,568	$ 14,362	$ 115,665	$ (531)	$ 675,064	$ 42,961	$ (16,418)	$ 3,717,719
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	1,238,150	202,521	6,727	82,517	(507)	291,258	30,431	(2,931)	1,556,908
Selling, general and administrative	1,234,675	167,326	5,184	29,346	(24)	201,832	10,767	(12,787)	1,434,487
Depreciation, amortization and accretion	593,410	129,352	2,914	17,286	-	149,552	4,494	4,119	751,575
Loss on asset disposals, net	16,153	(176)	-	123	-	(53)	32	(42)	16,090

(Gain) loss on sale of business and other exit costs, net	(243,627)	-	-	-	-	-	-	(54,010)	(297,637)
Operating income (loss)	177,351	46,545	(463)	(13,607)	-	32,475	(2,763)	49,233	256,296
Equity in earnings of unconsolidated entities	99,797	16	-	-	-	16	-	490	100,303
Interest and dividend income	2,967	1,263	-	47	-	1,310	3	2,405	6,685
Gain (loss) on investments	18,527	830	-	-	-	830	-	(4,839)	14,518
Interest expense	(32,393)	2,420	(32)	(1,205)	-	1,183	(3,007)	(38,991)	(73,208)
Other, net	153	(213)	-	(11)	-	(224)	(153)	18	(206)
Income (loss) before income taxes	266,402	50,861	(495)	(14,776)	-	35,590	(5,920)	8,316	304,388
Add back:									
Depreciation, amortization and accretion	593,410	129,352	2,914	17,286	-	149,552	4,494	4,119	751,575
(Gain) loss on sale of business	(243,627)	-	-	-	-	-	-	(54,010)	(297,637)

and other exit costs, net									
Gain (loss) on investments	(18,527)	(830)	-	-	-	(830)	-	4,839	(14,518)
Interest expense	32,393	(2,420)	32	1,205	-	(1,183)	3,007	38,991	73,208
Adjusted income before income taxes	$ 630,051	$ 176,963	$ 2,451	$ 3,715	$ -	$ 183,129	$ 1,581	$ 2,255	$ 817,016

Investments in unconsolidated entities