Exhibit 5

Annual Report
Telephone and Data Systems, Inc. (Parent Corporation)

TDS Metrocom, LLC
Application for CPCN
Public Service Commission of Utah

EDGAR Online

TELEPHONE & DATA SYSTEMS INC /DE/

FORM 10-K
(Annual Report)

Filed 02/28/14 for the Period Ending 12/31/13

Address	30 NORTH LASALLE STREET STE 4000 CHICAGO, IL 60602
Telephone	3126301900
CIK	0001051512
Symbol	TDA
SIC Code	4813 - Telephone Communications, Except Radiotelephone
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, $.01 par value	New York Stock Exchange
6.625% Senior Notes due 2045	New York Stock Exchange
6.875% Senior Notes due 2059	New York Stock Exchange
7.0% Senior Notes due 2060	New York Stock Exchange
5.875% Senior Notes due 2061	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark 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. Yes ☒ No

Indicate by check mark 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). Yes ☒ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2013, the aggregate market values of the registrant's Common Shares, Series A Common Shares and Preferred Shares held by non-affiliates were approximately $2.3 billion, $2.3 million and $0.8 million, respectively. For purposes hereof, it was assumed that each

director, executive officer and holder of 10% or more of any class of voting equity security of Telephone and Data Systems, Inc. ("TDS") is an affiliate. The June 30, 2013 closing price of the Common Shares was $24.65 as reported by the New York Stock Exchange. Because trading in the Series A Common Shares and Preferred Shares is infrequent, the registrant has assumed for purposes hereof that (i) each Series A Common Share has a market value equal to one Common Share because the Series A Common Shares are convertible on a share-for-share basis into Common Shares, (ii) each nonredeemable Preferred Share has a market value of $100 because each of such shares had a stated value of $100 when issued, and (iii) each Preferred Share that is redeemable by the delivery of TDS Common Shares has a value equal to the value of the number of Common Shares (at $24.65 per share) on June 30, 2013 that would be required to be delivered upon redemption.

The number of shares outstanding of each of the registrant's classes of common stock, as of January 31, 2014, is 101,596,000 Common Shares, $.01 par value, and 7,166,000 Series A Common Shares, $.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Those sections or portions of the registrant's 2013 Annual Report to Shareholders ("Annual Report"), filed as Exhibit 13 hereto, and of the registrant's Notice of Annual Meeting of Shareholders and Proxy Statement for its 2014 Annual Meeting of Shareholders ("Proxy Statement") to be filed on or prior to April 30, 2014, described in the table of contents included herein are incorporated by reference into Parts II and III of this report.

Telephone and Data Systems, Inc.

Annual Report on Form 10-K
For the Period Ended December 31, 2013

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Telephone and Data Systems, Inc.
30 NORTH LASALLE STREET, SUITE 4000,
CHICAGO, ILLINOIS 60602
TELEPHONE (312) 630-1900

PART I

Item 1. Business

Telephone and Data Systems, Inc. ("TDS") is a diversified telecommunications company providing high-quality telecommunications services to approximately 4.8 million wireless customers and 1.1 million wireline and cable connections at December 31, 2013. TDS conducts substantially all of its wireless operations through its 84%-owned subsidiary, United States Cellular Corporation ("U.S. Cellular"). TDS provides wireline services, cable services and hosted and managed services ("HMS"), through its wholly-owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom").

TDS conducts printing and distribution services through its majority-owned subsidiary, Suttle-Straus, Inc. ("Suttle-Straus") and provides wireless services through its wholly-owned subsidiary, Airadigm Communications, Inc. ("Airadigm"), a Wisconsin-based service provider (collectively, the "Non-Reportable Segment"). At this time, Airadigm operates independently from U.S. Cellular. Suttle-Straus and Airadigm's financial results were not significant to TDS' operations in 2013.

Previously, TDS had reported the following reportable segments: U.S. Cellular, TDS Telecom's incumbent local exchange carrier ("ILEC"), its competitive local exchange carrier ("CLEC"), its HMS operations and the Non-Reportable Segment. As a result of recent acquisitions and changes in TDS' strategy, operations and internal reporting, TDS has reevaluated and changed its operating segments during the year ended December 31, 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. The HMS segment remains unchanged except that it now uses a unified brand name, OneNeck IT Solutions ("OneNeck"), as a result of the consolidation of the HMS operations. 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. Additional information about TDS' segments is incorporated herein by reference from Note 18 — Business Segment Information, in TDS' Annual Report to Shareholders, filed as Exhibit 13 hereto.

TDS was incorporated in 1968 and changed its state of incorporation from Iowa to Delaware in 1998. TDS executive offices are located at 30 North LaSalle Street, Suite 4000, Chicago, Illinois 60602. TDS' telephone number is 312-630-1900.

TDS Common Shares trade under the ticker symbol "TDS" on the New York Stock Exchange ("NYSE"). U.S. Cellular Common Shares trade on the NYSE under the ticker symbol "USM."

The following securities also trade on the NYSE: TDS' 6.625% Senior Notes due 2045 trade under the symbol "TDI," TDS' 6.875% Senior Notes due 2059 trade under the symbol "TDE," TDS' 7.0% Senior Notes due 2060 trade under the symbol "TDJ" and TDS' 5.875% Senior Notes due 2061 trade under the symbol "TDA." U.S. Cellular's 6.95% Senior Notes due 2060 trade under the symbol "UZA." U.S. Cellular's 6.7% Senior Notes due 2033 are traded over the counter and are not listed on any stock exchange.

Under listing standards of the NYSE, TDS is a "controlled company" as such term is defined by the NYSE. TDS is a controlled company because over 50% of the voting power for the election of directors of TDS is held by the trustees of the TDS Voting Trust.

U.S. Cellular is a majority-owned subsidiary of TDS. As of December 31, 2013, TDS owned 84% of the combined total of the outstanding Common Shares and Series A Common Shares of U.S. Cellular and controlled 96% of the combined voting power of both classes of common stock.

Available Information

TDS' website is *http://www.teldta.com* . TDS files with, or furnishes to, the Securities and Exchange Commission ("SEC") annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, as well as various other information. Anyone may access, free of charge, through the Investor Relations portion of the website, the TDS annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practical after such material is electronically filed with the SEC. The public may read and copy any materials TDS files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. The public may obtain information on the operation of the Reference Room by calling the SEC at 1-800-732-0330. The public may also view electronic filings of TDS by accessing SEC

filings at *http://www.sec.gov* .

U.S. Cellular's website address is *http://www.uscellular.com* . U.S. Cellular files with, or furnishes to, the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, as well as various other information. Investors may access, free of charge, through the Investor Relations portion of the website, U.S. Cellular's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practical after such material is filed electronically with the SEC. The public may read and copy any materials U.S. Cellular files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. The public may obtain information on the operation of the Reference Room by calling the SEC at 1-800-732-0330. The public may also view electronic filings of U.S. Cellular by accessing SEC filings at *http://www.sec.gov* .

U.S. Cellular Operations

General

United States Cellular Corporation ("U.S. Cellular") was incorporated under the laws of the state of Delaware in 1983. At December 31, 2013, U.S. Cellular's consolidated operating markets serve approximately 4.8 million customers in 23 states. U.S. Cellular operates in one reportable segment, wireless operations, and all of its wireless operating markets are in the United States.

U.S. Cellular is a wireless telecommunications service provider. U.S. Cellular groups its individual markets (geographic service areas as defined by the Federal Communications Commission ("FCC") in which wireless carriers are licensed, for fixed terms, to provide service) into broader geographic market areas (as discussed below in "Total Consolidated Markets" and "Consolidated Operating Markets") to offer customers large service areas that primarily utilize U.S. Cellular's network. Since 1985, when it began providing wireless telecommunications service in Knoxville, Tennessee and Tulsa, Oklahoma, U.S. Cellular has expanded its consolidated wireless networks and customer service operations to cover portions of 23 states, which collectively represent a total population of 31.8 million as of December 31, 2013. U.S. Cellular uses roaming agreements with other wireless carriers to provide service to its customers in areas not covered by U.S. Cellular's network. See "Divestiture Transaction" below.

U.S. Cellular is subject to regulation by the FCC as a provider of wireless telecommunication services. The FCC regulates the licensing, construction, and operation of providers of wireless telecommunications systems, as well as the provision of services over those systems. See "Regulation" below for further discussion regarding licenses as well as the regulations promulgated by the FCC.

U.S. Cellular's ownership interests in wireless licenses include both consolidated and investment interests in licenses covering portions of 30 states and a total population of 58.0 million at December 31, 2013.

For purposes of tracking population counts in order to calculate market penetration, when U.S. Cellular acquires a licensed area that overlaps a licensed area it already owns, it does not duplicate the population counts for any overlapping licensed area. In such cases, only incremental population counts are added to the reported amount of "total market population".

Total market population measures in U.S. Cellular's consolidated markets and consolidated operating markets, as defined below, are provided to allow comparison of the total population to the relative size of U.S. Cellular's customer base in those markets. The total population of U.S. Cellular's consolidated markets may have no direct relationship to the number of wireless customers or the revenues that may be realized from the operation of the related wireless systems. In addition, population equivalents for investment interests have been provided to allow comparison to the relative size of U.S. Cellular's consolidated markets.

Consolidated Markets

The following table summarizes information regarding licensed areas which U.S. Cellular consolidates as of December 31, 2013. The population shown is the total population, regardless of U.S. Cellular's percentage ownership in the licenses included:

	Population (1)	Customers	Penetration
Consolidated Operating Markets (2) (4)	31,759,000	4,774,000	15.0%
Total Consolidated Markets (3) (4)	58,013,000	4,774,000	8.2%

(1) Represents 100% of the population of the licensed areas, based on 2012 Claritas population estimates. "Population" in this context includes only the areas covering such markets and is used only for the purposes of calculating market penetration and is not related to "population equivalents," as defined below.

(2) Represents licensed areas which U.S. Cellular consolidates and are in operation in the following states CA, IA, IL, IN, KS, MD, ME, MN, MO, NC, NE, NH, OK, OR, PA, SC, TN, TX, VA, VT, WA, WI and WV.

(3) Represents licensed areas which U.S. Cellular consolidates, including non-operating markets in the following states: AR, CA, CO, IA, ID, IL, IN, KS, KY, MD, ME, MI, MN, MO, NC, NE, NH, OH, OK, OR, PA, SC, SD, TN, TX, VA, VT, WA, WI and WV.

(4) See "NY1 & NY2 Deconsolidation" and "Divestiture Transaction" below.

Investment Markets

The following table summarizes the markets in which U.S. Cellular owns an investment interest at December 31, 2013. For licenses in which U.S. Cellular owns an investment interest, the related population equivalents are shown.

Market Area/Market	Population (1)	Current Percentage Interest (2)	Current Population Equivalents (3)
Los Angeles/Oxnard, CA	18,085,000	5.5%	995,000
New York Region	491,000	Varies (4)	288,000
Oklahoma City, OK	1,220,000	14.6%	178,000
Others (fewer than 100,000 population equivalents each)	4,751,000	Varies	294,000
Total population equivalents in investment markets			1,755,000

(1) Represents 100% of the total population of the licensed area in which U.S. Cellular owns an interest based on 2012 Claritas population estimates.

(2) Represents U.S. Cellular's percentage ownership interest in the licensed area as of December 31, 2013.

(3) "Current Population Equivalents" are derived by multiplying the amount in the "Population" column by the percentage interest indicated in the "Current Percentage Interest" column.

(4) See "NY1 & NY2 Deconsolidation" below.

NY1 & NY2 Deconsolidation

As more fully described in Note 7 – Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements, 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").

Refer to TDS' Form 8-K filed on February 26, 2014 for pro forma financial information related to the Divestiture Transaction and the NY1 & NY2 Deconsolidation for the three and twelve months ended December 31, 2013, as if these transactions had occurred at the beginning of the respective periods. Also refer to TDS' Form 8-K filed on May 3, 2013 for pro forma financial information related to the Divestiture Transaction and the NY1 & NY2 Deconsolidation for the twelve months ended December 31, 2012.

Refer to the Summary Operating Data for U.S. Cellular Core Markets in Management's Discussion and Analysis of Financial Condition and Operations – Results of Operations – U.S. Cellular, for summarized operating data for U.S. Cellular for 2013 and 2012 excluding the NY1 & NY2 markets (and the Divestiture Markets as described below).

Divestiture Transaction

As more fully described in Note 5 – Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements, on November 6, 2012, U.S. Cellular entered into a Purchase and Sale Agreement with subsidiaries of Sprint Corp, fka Sprint Nextel Corporation ("Sprint"). Pursuant to the Purchase and Sale Agreement, on May 16, 2013, U.S. Cellular transferred customers and certain PCS license spectrum to Sprint in U.S. Cellular's Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets ("Divestiture Markets") in consideration for $480 million in cash. The Purchase and Sale Agreement also contemplated certain other agreements, together with the Purchase and Sale Agreement collectively referred to as the "Divestiture Transaction."

The table below provides selected information related to the Divestiture Markets as of December 31, 2012 that are no longer included in operating data as of December 31, 2013:

Market population	15,037,000
Total customers	560,000
Postpaid customers	463,000
Prepaid customers	81,000
Reseller customers	16,000

Refer to TDS' Form 8-K filed on February 26, 2014 for pro forma financial information related to the Divestiture Transaction and the NY1 & NY2 Deconsolidation for the three and twelve months ended December 31, 2013, as if these transactions had occurred at the beginning of the respective periods. Also refer to TDS' Form 8-K filed on May 3, 2013 for pro forma financial information related to the Divestiture Transaction and the NY1 & NY2 Deconsolidation for the twelve months ended December 31, 2012.

Refer to the Summary Operating Data for U.S. Cellular Core Markets in Management's Discussion and Analysis of Financial Condition and Operations – Results of Operations – U.S. Cellular, for summarized operating data for 2013 and 2012 excluding the Divestiture Markets (and NY1 & NY2 markets).

Products and Services

Wireless Services. U.S. Cellular's postpaid customers are able to choose from a variety of national plans with voice, messaging and data usage options and pricing that are designed to fit different customer needs, usage patterns and budgets. Helping a customer find the right pricing plan is an important element of U.S. Cellular's brand positioning. Beginning in 2013, U.S. Cellular began offering Shared Data plans that include unlimited voice minutes and text messaging combined with a variety of data usage options. Under these plans, customers can share data usage among all users and devices connected to the plan. Business rate plans are offered to companies to meet their unique needs. U.S. Cellular's popular national plans price all calls as local calls, regardless of where they are made or received in the United States, with no long distance or roaming charges. U.S. Cellular also offers prepaid service plans, which include voice, messaging and data options in a variety of ways, for a monthly fee.

U.S. Cellular incents customer loyalty by offering industry-leading benefits. Customers who subscribe to postpaid national plans can earn loyalty reward points just for being a customer. Points can be used to obtain a free phone or to accelerate the timing of a phone upgrade, as well as for other rewards such as additional lines and accessories. Certain available postpaid plans include Overage Cap, a free service that prevents voice overage charges from exceeding $50 for a National Single Line Plan or $150 for a Family Plan.

U.S. Cellular's portfolio of smartphones, tablets and other connected devices (see "Wireless Devices" below) is a key part of its strategy to deliver wireless devices which allow customers to stay productive, entertained and connected on the go. Backed by U.S. Cellular's high-speed networks, including a fourth generation Long Term Evolution ("4G LTE") network, which, as of December 31, 2013, covers 87% of its postpaid customers and a third generation ("3G") network that supports nationwide roaming, U.S. Cellular's smartphone messaging, data and internet services allow customers to access the web and social network sites, e-mail, text, picture and video message, utilize turn-by-turn GPS navigation, and browse and download thousands of applications to customize their wireless devices to fit their lifestyles.

U.S. Cellular offers smartphone and non-smartphone users a variety of services which run over its 4G LTE and 3G networks. In 2013, U.S. Cellular launched several new services such as Family Protector and an international dialing plan while continuing to offer enhanced multimedia services, including digital radio, Mobile TV and gaming. U.S. Cellular continues to offer data services and app-like experiences to non-smartphone devices via a technology known as Binary Runtime Environment for Wireless ("BREW"), which enables customers to access news, weather, sports, information, games, ring tones and other services.

U.S. Cellular plans to further enhance its advanced wireless services and connected solutions for consumer and business customers in 2014 and beyond.

Wireless Devices. U.S. Cellular offers a comprehensive range of wireless devices such as handsets, modems, mobile hotspots, home phone and tablets for use by its customers. U.S. Cellular offers wireless devices that are compatible with some or all of its 4G LTE, 3G and 2G networks and all are compliant with the FCC's enhanced wireless 911 ("E-911") requirements. In addition, U.S. Cellular offers a wide range of accessories, such as carrying cases, hands-free devices, batteries, battery chargers, memory cards and other items to customers. U.S. Cellular also sells wireless devices to agents and other third-party distributors for resale. U.S. Cellular frequently discounts wireless devices sold to new and current customers and provides discounts on upgraded wireless devices to current customers, in order to attract new customers or to retain existing customers by reducing the cost of becoming or remaining a wireless customer. Beginning in 2013, U.S. Cellular began offering financing options on certain wireless devices.

U.S. Cellular has established service facilities in many of its local markets to ensure quality service and repair of the wireless devices it sells. These facilities allow U.S. Cellular to provide convenient and timely repair service to customers who experience device problems. Additionally, U.S. Cellular offers several programs which allow the customer to receive a replacement device through a retail store or through direct mail.

During 2013, U.S. Cellular continued to bolster its expanding smartphone and tablet portfolio with the launch of Apple products such as the iPhone and iPad. Throughout 2013, U.S. Cellular also launched a number of high-performance Android wireless devices, such as the Samsung Galaxy S4, the Samsung Galaxy Note 3, and the Motorola Moto X. U.S. Cellular's smartphone offerings play a significant role in driving data service usage and revenues. The devices offered include a full array of smartphones and feature phones.

U.S. Cellular purchases wireless devices and accessory products from a number of manufacturers, including Apple, Samsung, Motorola, Personal Communications Devices, LG, BlackBerry, Superior Communications, Kyocera, ZTE, Tessco, ABM Wireless (Mobilistics), and Xentris Wireless. U.S. Cellular negotiates volume discounts with its suppliers and works with them in promoting specific equipment in its local advertising. U.S. Cellular does not own significant product warehousing and distribution infrastructure. Instead, it contracts with third party providers for substantially all of its product warehousing, distribution and direct customer fulfillment activities. U.S. Cellular also contracts with third party providers for services related to its reward points and phone replacement programs.

U.S. Cellular monitors the financial condition of its wireless device and accessory suppliers. Because U.S. Cellular purchases wireless devices and accessories from numerous suppliers, U.S. Cellular does not expect the financial condition of any single supplier to affect U.S. Cellular's ability to offer a competitive variety of wireless devices and accessories for sale to customers.

Marketing

Customer Acquisition and Retention. U.S. Cellular's marketing plan is focused on acquiring, retaining and growing customer relationships by offering high-quality products and services built around customer needs at fair prices, maintaining an exceptional wireless network, and providing outstanding customer service.

U.S. Cellular believes that creating positive relationships with its customers enhances their wireless experience and builds customer loyalty. U.S. Cellular currently offers several innovative, customer-centric programs and services at no cost to the customer. The Overage Protection service provides customers peace-of-mind by sending them text message alerts when they come close to reaching their allowable monthly plan minutes, text messages or data usage in order to avoid overage charges. Although the FCC approved a proposal in 2011 that would require carriers to notify customers before they incur excessive charges, U.S. Cellular believes that it was the first to offer this service. My Contacts Backup offers extra security for customers by allowing them to retrieve their contact numbers if they lose or damage their wireless devices.

U.S. Cellular increases customer awareness using media such as television, radio, newspaper, direct mail advertising, the Internet, social media and sponsorships. U.S. Cellular has achieved its current level of penetration of its markets through a combination of a strong brand position, promotional advertising, broad distribution, maintaining a high-quality wireless network and providing outstanding customer service. U.S. Cellular's advertising is directed at increasing the public awareness and understanding of the wireless services it offers, improving potential customers' awareness of the U.S. Cellular brand, attracting and retaining customers, and increasing existing customers' usage of U.S. Cellular's services. U.S. Cellular attempts to select the advertising and promotional media that are most appealing to the targeted groups of potential customers in each local market. U.S. Cellular supplements its advertising with a focused public relations program that drives store traffic, supports sales of products and services, and builds brand awareness and preference. The approach combines national and local media relations in mainstream and social media channels with market-wide activities, events, and sponsorships. Since 2008, U.S. Cellular has focused its charitable giving strategy on the pressing needs of schools and has invested millions of dollars in its education initiatives, such as Calling All Communities and Calling All Teachers, which support schools and teachers in the communities U.S. Cellular serves.

U.S. Cellular manages customer retention by focusing on outstanding customer service through the development of processes that are customer-friendly, extensive training of frontline sales and support associates and the implementation of retention programs. The marketing plan highlights the value of U.S. Cellular's high quality network, service offerings and incorporates combinations of rate plans, additional value-added features and services and wireless devices which are designed to meet the needs of customers.

U.S. Cellular currently operates four regional customer care centers with personnel who are responsible for customer service activities, and a national financial services center with personnel who perform credit and other customer payment activities. U.S. Cellular also contracts with third parties that provide additional customer care and financial services support.

Distribution Channels. U.S. Cellular supports a multi-faceted distribution program, including retail sales and service centers, direct sales, third-party national retailers, and independent agents, plus the website and telesales for customers who wish to contact U.S. Cellular through the Internet or by phone.

Company retail store locations are designed to market wireless products and services to the consumer and small business segments in a setting familiar to these types of customers. As of December 31, 2013, retail sales associates work in approximately 300 U.S. Cellular-operated retail stores and kiosks. Direct sales consultants market wireless services to mid-size business customers. Additionally, the U.S. Cellular website enables customers to activate service and purchase wireless devices online.

U.S. Cellular maintains an ongoing training program to improve the effectiveness of retail sales associates and direct sales consultants by focusing their efforts on obtaining customers by facilitating the sale of appropriate packages for the customer's expected usage and value-added services that meet customer needs.

U.S. Cellular has relationships with exclusive and non-exclusive agents, which are independent businesses that obtain customers for U.S. Cellular on a commission basis. At December 31, 2013, U.S. Cellular had contracts with these businesses aggregating over 750 locations. U.S. Cellular provides additional support and training to its exclusive agents to increase customer satisfaction for customers they serve. U.S. Cellular's agents are generally in the business of selling wireless devices, wireless service packages and other related products. No single agent accounted for 10% or more of U.S. Cellular's operating revenues during the past three years.

In 2012 and 2013, U.S. Cellular expanded its distribution through third-party national and on-line retailers. As of December 2013, Wal-Mart and Sam's Club offer U.S. Cellular products and services at select retail locations in U.S. Cellular's service areas. Further, Amazon offers U.S. Cellular's prepaid service on-line. U.S. Cellular continues to explore new relationships with additional third-party retailers as part of its strategy to expand distribution.

U.S. Cellular also markets wireless service through resellers. The resale business involves the sale of wholesale access and minutes to independent companies that package and resell wireless services to end-users. These resellers generally provide prepaid and postpaid services to subscribers under their own brand names and also provide their own billing and customer service. U.S. Cellular incurs no direct subscriber acquisition costs related to reseller customers. At December 31, 2013, U.S. Cellular had approximately 164,000 customers of resellers. For the year ended December 31, 2013, revenues from resale business were less than 1% of total service revenues.

Seasonality. There is seasonality in operating expenses, which tend to be higher in the fourth quarter than in the other quarters due to increased marketing and promotional activities, which may cause operating income to vary from quarter to quarter.

Customers and System Usage

U.S. Cellular provides service to customers from a variety of demographic segments. U.S. Cellular uses a segmentation model to classify businesses and consumers into logical groupings for developing new products and services, direct marketing campaigns, and retention efforts. U.S. Cellular focuses on both retail consumers and small-to-mid-size business customers in vertical industries such as construction, retail, professional services and real estate. These industries are primarily served through U.S. Cellular's retail and direct sales channels.

U.S. Cellular's main sources of revenues are from its own customers and from customers of competitors who roam on its network. The interoperability of wireless service enables a customer who is in a wireless service area other than the customer's home service area to place or receive a call or use data in that service area. U.S. Cellular has entered into reciprocal roaming agreements with operators of other wireless systems covering virtually all systems with Code Division Multiple Access ("CDMA") technology in the United States, Canada and Mexico. Roaming agreements offer customers the opportunity to roam on these systems. These reciprocal agreements automatically pre-register the customers of U.S. Cellular's systems in the other carriers' systems. In addition, a customer of a participating system roaming in a U.S. Cellular market where this arrangement is in effect is able to make and receive calls or data on U.S. Cellular's system. The charge for this service is negotiated as part of the roaming agreement between U.S. Cellular and the roaming customer's carrier. U.S. Cellular bills this charge to the customer's home carrier, which then may bill the customer. In many instances, based on competitive factors, carriers, including U.S. Cellular, may not charge their customers, or charge lower amounts to their customers than the amounts actually charged by other wireless carriers for roaming. Since 2010, U.S. Cellular has offered nationwide 3G data roaming services, allowing its customers to access high-speed data across the country.

U.S. Cellular currently is exploring 4G LTE roaming agreements with operators of other wireless systems. The FCC's adoption of mandatory 4G LTE roaming rules, which were upheld by the United States Court of Appeals for the District of Columbia, may be of assistance in the negotiation of 4G LTE roaming agreements with other wireless operators in the future. However, technological challenges currently exist which limit the interoperability of 4G LTE wireless devices on other carriers' networks. Specifically, wireless devices support certain configurations of spectrum frequencies and as a result 4G LTE wireless devices offered by carriers are not necessarily compatible with the networks of other carriers. U.S. Cellular is working with other carriers, original equipment manufacturers and potential LTE roaming vendors to mitigate interoperability issues. U.S. Cellular anticipates being ready to support inbound and outbound LTE roaming (with compatible networks) in the second half of 2014. See also "Regulation – FCC Interoperability Order" below.

Technology and System Design and Construction

Technology . Wireless telecommunication systems transmit voice, data, graphics and video through the transmission of signals over networks of radio towers using radio spectrum licensed by the FCC. Access to local, regional, national and worldwide telecommunications networks is provided through system interconnections. A high-quality network, supported by continued investments in that network, will remain an important factor for wireless companies to remain competitive.

U.S. Cellular deployed 4G LTE technology in conjunction with King Street Wireless L.P. that covered approximately 87% of its postpaid customers as of December 31, 2013, and anticipates further expansion of 4G LTE coverage in 2014. U.S. Cellular continues to offer services based on 3G technology and CDMA digital technology across its networks.

Through roaming agreements with other CDMA-based wireless carriers, U.S. Cellular's customers may access CDMA service in virtually all areas of the United States, as well as parts of Canada and Mexico. Another digital technology, Global System for Mobile Communication ("GSM"), has a larger installed base of customers worldwide. Since CDMA technology currently is not compatible with GSM technology, U.S. Cellular customers with CDMA-only based wireless devices are currently not able to use their wireless devices when traveling through areas serviced only by GSM-based networks. However, both CDMA and GSM technologies are being succeeded by 4G LTE technology.

System Design and Construction. U.S. Cellular designs and constructs its systems in a manner it believes will permit it to provide high-quality service to substantially all types of compatible wireless devices. Designs are based on engineering studies which relate to specific markets, in support of the larger network. Such engineering studies are performed by U.S. Cellular personnel or third-party engineering firms. Network reliability is given careful consideration and extensive backup redundancy is employed in many aspects of U.S. Cellular's network design. Route diversity, redundant equipment, ring topology and extensive use of emergency standby power also are used to enhance network reliability and minimize service disruption from any particular network element failure.

In accordance with its strategy of building and strengthening its operating market areas, U.S. Cellular has selected high-capacity, carrier-class digital wireless switching systems that are capable of serving multiple markets through a single mobile telephone switching office. Centralized equipment, used for network and data management, is located in high-availability facilities supported by multiple levels of power and network redundancy. U.S. Cellular's systems are designed to incorporate Internet Protocol ("IP") packet-based Ethernet technology, which allows for increased data capacity and a more efficient network. Interconnection between the mobile telephone switching office and the cell sites utilizes Ethernet technology for nearly all 4G LTE sites, over fiber or microwave links.

U.S. Cellular believes that currently available technologies and appropriate capital additions will allow sufficient capacity on its networks to meet anticipated demand for voice and data services over the next few years. U.S. Cellular's continued investment in new licenses will support future demand for fourth generation broadband services using 4G LTE. Increasing demand for high-speed data and video services may require the acquisition of additional licenses to provide sufficient capacity.

Construction of wireless systems is capital-intensive, requiring substantial investment for land and improvements, buildings, towers, mobile telephone switching offices, cell site equipment, transport equipment, engineering and installation. U.S. Cellular primarily uses its own personnel to engineer each wireless system it owns and operates, and engages contractors to construct the facilities.

The costs (inclusive of the costs to acquire licenses) to develop the systems which U.S. Cellular operates have historically been financed primarily through proceeds from debt and equity offerings, with cash generated by operations, and proceeds from the sales of wireless interests. U.S. Cellular believes that existing cash and investments balances, expected cash flows from operating and investing activities and funds available under its revolving credit facility provide substantial liquidity and financial flexibility for U.S. Cellular to meet its normal financing needs (including working capital and capital expenditures) for the foreseeable future. In addition, U.S. Cellular may access public and private capital markets to help meet its financing needs.

Competition

The wireless telecommunication industry is highly competitive. U.S. Cellular competes directly with several wireless service providers in each of its markets. In general, there are between three and five competitors in each wireless market in which U.S. Cellular provides service, excluding resellers and mobile virtual network operators. U.S. Cellular generally competes against each of the national wireless companies: Verizon Wireless, AT&T Mobility, Sprint, and T-Mobile USA. These competitors have substantially greater financial, technical, marketing, sales, purchasing and distribution resources than U.S. Cellular.

Since each of these competitors operates on systems using spectrum licensed by the FCC and has comparable technology and facilities, competition among wireless service providers for customers is principally on the basis of types of products and services, price, size of area covered, call quality, network speed and responsiveness of customer service. U.S. Cellular employs a customer satisfaction strategy that includes maintaining an outstanding wireless network throughout its markets that it believes has contributed to its overall success.

The use of national advertising and promotional programs by the national wireless service providers may be a source of additional competitive and pricing pressures in all U.S. Cellular markets, even if those operators do not provide direct service in a particular market. In addition, in the current wireless environment, U.S. Cellular's ability to compete depends on its ability to continue to offer national voice and data plans. U.S. Cellular provides wireless services comparable to the national competitors, but the national wireless companies operate in a wider geographic area and are able to offer no- or low-cost roaming over a wider area on their own networks than U.S. Cellular can offer on its network. When U.S. Cellular offers the same coverage area as one of these competitors, U.S. Cellular incurs roaming charges for data sessions and calls made in portions of the coverage area which are not part of its network, thereby increasing its cost of operations. U.S. Cellular depends on roaming agreements with other wireless carriers to provide voice and data roaming capabilities in areas not covered by U.S. Cellular's network. Similarly, U.S. Cellular provides roaming services on its network to other wireless carriers' customers who travel within U.S. Cellular's coverage areas.

Bundled offerings, in the form of "triple plays" and "quadruple plays" (combinations of cable or satellite video service, high-speed internet, wireline service, and wireless service), are common among some of U.S. Cellular's competitors. Convergence is taking place on many levels, including dual-mode wireless devices that act as wireline or wireless devices depending on location and the incorporation of wireless "hot spot" technology in wireless devices for making internet access seamless regardless of location. Although less directly a substitute for other wireless services, wireless data services such as Wi-Fi may be adequate for those who do not need full mobility wide area roaming or full two-way voice services. Technological advances or regulatory changes in the future may make available other alternatives to wireless service, thereby creating additional sources of competition.

U.S. Cellular's approach in 2014 and in future years will be to focus on the unique needs and attitudes towards wireless service of its selected target segments. U.S. Cellular will deliver selected, targeted high quality products and services at fair prices and will continue to differentiate itself by providing an overall outstanding customer experience, including a high quality network experience. U.S. Cellular's customer-centric approach, highly reliable network, as evidenced by numerous consumer satisfaction awards based on survey results, and cutting-edge wireless devices all represent examples of how U.S. Cellular believes it is differentiating itself from competitors as it relates to the customer experience. U.S. Cellular's ability to compete successfully in the future, and to meet growth and return on capital objectives, will depend upon its ability to anticipate and respond to changes related to new service offerings, customer preferences, competitors' pricing strategies, technology, demographic trends and economic conditions and its access to adequate spectrum resources.

Business Development Strategy

U.S. Cellular's business development strategy is to obtain interests in and access to wireless licenses in its current operating markets and in areas that are adjacent to or in close proximity to its other wireless licenses, thereby building contiguous operating market areas with strong spectrum positions. U.S. Cellular believes that the acquisition of additional licenses within its current operating markets will enhance its network capacity to meet its customers' increased demand for data services. U.S. Cellular anticipates that grouping its operations into market areas will continue to provide it with certain economies in its capital and operating costs. U.S. Cellular may continue to make opportunistic acquisitions or exchanges that further strengthen its current operating markets or in other attractive markets. U.S. Cellular seeks to acquire noncontrolling interests in licenses in which it already owns the majority interest and/or operates the license. From time to time, U.S. Cellular has divested outright or included in exchanges for other wireless interests certain consolidated and investment interests that were considered less essential to its current and expected future operations. As part of its business development strategy, U.S. Cellular from time to time may be engaged in negotiations relating to the acquisition, exchange or disposition of companies, strategic properties or wireless spectrum. In general, U.S. Cellular may not disclose such transactions until there is a definitive agreement. In addition, U.S. Cellular may participate as a bidder, or member of a bidding group, in auctions for wireless spectrum administered by the FCC. In general, U.S. Cellular may not disclose any such participation unless it or such bidding group is announced as a winning bidder by the FCC.

In addition to the Divestiture Transaction discussed in Note 5 – Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements, U.S. Cellular engaged in the following significant transactions in the last five years.

Spectrum Transactions. The following are significant license transactions in the last five years. No customers, network assets, other assets or liabilities were included in these transactions. In addition to the licenses listed below, U.S. Cellular has acquired or divested of a number of other licenses as part of less significant transactions in recent years.

2013 Spectrum Sales. On October 4, 2013, U.S. Cellular sold the majority of its Mississippi Valley non-operating market license ("unbuilt license"). On August 14, 2013, U.S. Cellular entered into a definitive agreement to sell the majority of its St. Louis area unbuilt license.

2012 700 MHz A-Block . On August 15, 2012, U.S. Cellular completed a license purchase whereby U.S. Cellular received four 700 MHz A-Block spectrum licenses covering portions of Iowa, Kansas, Missouri, Nebraska, and Oklahoma. On November 20, 2012, U.S. Cellular completed a license purchase whereby U.S. Cellular received seven 700 MHz A-Block spectrum licenses covering portions of Illinois, Michigan, Minnesota, Missouri, Nebraska, Oregon, Washington and Wisconsin.

2011 Spectrum Swap. On September 30, 2011, U.S. Cellular completed an exchange whereby U.S. Cellular received eighteen 700 MHz spectrum licenses covering portions of Idaho, Illinois, Indiana, Kansas, Nebraska, Oregon and Washington in exchange for two PCS spectrum licenses covering portions of Illinois and Indiana.

FCC Auctions. As more fully described in the Regulation section below, in 2012, the FCC conducted a single round, sealed bid, reverse auction to award Mobility Fund Phase I support to bidders that commit to provide wireless service in areas designated as unserved by the FCC. U.S. Cellular and several of its subsidiaries were winning bidders in eligible areas within 10 states.

From time to time, the FCC conducts auctions through which additional spectrum is made available for the provision of wireless services. U.S. Cellular has participated in certain prior FCC auctions indirectly through its limited partnership interests. Each entity qualified as a "designated entity" and thereby was eligible for bidding credits with respect to most licenses purchased in accordance with the rules defined by the FCC for each auction. In most cases, the bidding credits resulted in a 25% discount from the gross winning bid.

The FCC's Auction 73 for spectrum in the 700 MHz band closed on March 20, 2008. U.S. Cellular participated in Auction 73 indirectly through its limited partnership interest in King Street Wireless L.P. ("King Street Wireless"). King Street Wireless was the successful winning bidder of 152 licenses in Auction 73. These licenses were granted by the FCC in December 2009.

Regulation

Regulatory Environment. U.S. Cellular's operations are subject to FCC and state regulation. The wireless licenses that are held by U.S. Cellular and by the designated entities in which U.S. Cellular owns a non-controlling interest are granted by the FCC for the use of radio frequencies and are an important component of the overall value of U.S. Cellular's consolidated assets. The construction, operation and transfer of wireless systems in the United States are regulated to varying degrees by the FCC pursuant to the Communications Act of 1934 ("Communications Act"). In 1996, Congress enacted the Telecommunications Act of 1996 ("Telecommunications Act"), which amended the Communications Act. The Telecommunications Act mandated significant changes in telecommunications rules and policies to promote competition, ensure the availability of telecommunications services to all parts of the United States and streamline regulation of the telecommunications industry to remove regulatory burdens, as competition developed. The FCC has promulgated regulations governing construction and operation of wireless systems, licensing (including renewal of licenses) and technical standards for the provision of wireless services under the Communications Act, and has implemented the legislative objectives of the Telecommunications Act, as discussed below.

Licensing—Wireless Service. Wireless licenses are granted by the FCC based on various geographic areas. The completion of acquisitions, involving the transfer of control of all or a portion of a wireless system, requires prior FCC approval. The FCC determines on a case-by-case basis whether an acquisition of wireless licenses is in the public interest.

The Communications Act also requires the FCC to award new licenses for most commercial wireless services through a competitive bidding process in which spectrum is awarded to bidders in an auction. From time to time, the FCC conducts auctions through which additional spectrum is made available for the provision of wireless services. U.S. Cellular has participated in such auctions in the past and is likely to participate in other auctions conducted by the FCC in the future as an applicant or as a non-controlling partner in another auction applicant. FCC anti-collusion rules place certain restrictions on business communications and disclosures by participants in an FCC auction.

Licensing—Facilities. The FCC must be notified each time an additional cell site for a cellular system is constructed which enlarges the service area of that cellular system. The FCC is currently considering modifying this requirement by issuing licenses to cellular licensees for the market area they serve. U.S. Cellular believes that its facilities are in compliance with current requirements and will comply with any future requirements.

Licensing—Commercial Mobile Radio Service. Pursuant to the 1993 amendments to the Communications Act, cellular, personal communications, advanced wireless, and 700 MHz services are classified as Commercial Mobile Radio Service in that they are services offered to the public for a fee and are interconnected to the public switched telephone network. The FCC has determined that it will not require carriers providing such services to comply with a number of statutory provisions otherwise applicable to common carriers, such as the filing of tariffs. All Commercial Mobile Radio Service wireless licensees must satisfy specified coverage requirements. Licensees which fail to meet the coverage requirements may be subject to forfeiture of their licenses.

Wireless licenses are generally granted for a ten year term or, in some cases, for fifteen years. The FCC has established standards for conducting comparative renewal proceedings between a wireless licensee seeking renewal of its license and challengers filing competing applications. All of U.S. Cellular's licenses for which it applied for renewal between 1995 and 2013 have been renewed. In 2010, the FCC released a Notice of Proposed Rulemaking ("NPRM") regarding wireless services renewal proceedings. Pursuant to the NPRM, the FCC would abolish comparative renewal proceedings, and establish criteria by which it would determine whether a wireless licensee was entitled to license renewal. The proposed changes have been opposed by most wireless carriers, including U.S. Cellular. It is, however, likely that the FCC will take some action to modify the license renewal process. U.S. Cellular expects to meet the criteria of any license renewal process.

U.S. Cellular conducts and plans to conduct its operations in accordance with all relevant FCC rules and regulations and anticipates being able to qualify for renewal expectancy in its upcoming renewal filings whatever renewal criteria are applied. Accordingly, U.S. Cellular expects to be able to renew its licenses. However, changes in the regulation of wireless operators or their activities or changes in the FCC's renewal requirements could have a material adverse effect on U.S. Cellular's operations.

E-911 . The FCC has imposed E-911 regulations on wireless carriers. The rules require wireless carriers to provide different levels of detailed location information about E-911 callers depending on the capabilities of the local emergency call center. As of June 28, 2013, wireless carriers also are required to provide an automatic "bounce-back" text message to customers who attempt to send a text message to the local emergency call center from a location where "text to 911" is not available. The bounce back message would advise such customers that "text to 911" is not supported at that location and to contact emergency services by other means. U.S. Cellular is in compliance with the FCC's requirements regarding E-911.

Hearing Aid Compatibility. The FCC has imposed Hearing Aid Compatibility requirements on wireless carriers. These rules mandate that carriers offer to customers a certain number or percentage of handsets which are compatible with different types of hearing aids. The rules also require certain types of marketing and labeling practices in relation to such handsets, as well as certain disclosures on wireless carrier websites. There are also annual carrier reporting requirements regarding Hearing Aid Compatibility. U.S. Cellular is in compliance with the FCC's Hearing Aid Compatibility requirements.

Telecommunications Act—General. The primary purpose of the Telecommunications Act is to open all telecommunications markets to competition. The Telecommunications Act makes most direct or indirect state and local barriers to competition unlawful. It directs the FCC to preempt all inconsistent state and local laws and regulations, after notice and comment proceedings. It also enables electric and other utilities to engage in telecommunications service through qualifying subsidiaries.

Only narrow powers over wireless carriers are left to state and local authorities. Each state retains the power to impose competitively neutral requirements that are consistent with the Telecommunications Act's universal service provisions which a state considers necessary to promote universal service, public safety and welfare, continued service quality and consumer rights. Although a state may not impose requirements that effectively function as barriers to entry, it retains limited authority to regulate certain competitive practices in rural telephone company service areas.

The Telecommunications Act authorizes and directs the FCC to establish an explicit universal service fund, to preserve and advance universal access to telecommunications services in rural and high-cost areas of the country, to ensure that low-income consumers have access to telecommunications services, and to promote access for schools, libraries and health care providers. The Telecommunications Act requires all interstate telecommunications providers, including wireless service providers, to "make an equitable and non-discriminatory contribution" to support the cost of providing universal service, unless their contribution would be de minimis. At present, the provision of wireline and wireless telephone service in high cost areas is subsidized by support from the Universal Service Fund ("USF") to which all carriers with interstate and international revenues must contribute. Carriers are free to pass on the cost of such contributions to their customers. In 2013, U.S. Cellular contributed $90 million into the federal USF and passed on the cost of such contributions to its customers.

Wireless carriers may be designated by states, or in some cases by the FCC, as eligible to receive universal service support payments if they provide specified services in "high cost" areas. In 2013, U.S. Cellular received approximately $106.8 million in high cost support for service to high cost areas in the states of Illinois, Iowa, Kansas, Maine, Missouri, Nebraska, New Hampshire, New York, North Carolina, Oklahoma, Oregon, Tennessee, Virginia, Washington, Wisconsin and West Virginia. This high cost support is undergoing change, as set forth below.

National Broadband Plan. In 2009, Congress directed the FCC to develop a National Broadband Plan (the "Plan") to ensure every American has "access to broadband capability." In March 2010, the FCC released the Plan which describes the FCC's goals in enhancing broadband availability and the methods for achieving those goals over the next decade. Among the recommendations in the Plan which are significant to wireless providers are a series of proposals to make up to 500 MHz of spectrum newly available for broadband wireless uses by 2020, with a benchmark of making 300 MHz available by 2015, to reserve additional spectrum for unlicensed wireless use and to make more spectrum available for opportunistic and secondary uses. The Plan also made recommendations for transitioning the USF from supporting voice networks to broadband networks over time.

FCC's USF and ICC Reform Order . Pursuant to the Plan and subsequent notices of proposed rulemaking, on November 18, 2011, the FCC released a Report and Order and Further Notice of Proposed Rulemaking ("Reform Order") adopting reforms of its universal service and intercarrier compensation mechanisms, and proposing further rules to advance reform. The Reform Order substantially revised the USF high cost program and intercarrier compensation regime. The current USF program, which supports voice services, began to be phased out in 2012. As a replacement, the FCC is adopting the Connect America Fund ("CAF"), a new Mobility Fund, and a Remote Area Fund, which will collectively support broadband-capable networks. Mobile wireless carriers such as U.S. Cellular may be eligible to receive funding under each of these funds under certain circumstances.

The FCC has determined that both wireline and wireless facilities should be supported with one wireline carrier and one mobile carrier receiving support in each area. The Mobility Fund will be implemented in two phases. The Phase I Mobility Fund which was implemented in 2012 is designed to provide one-time funding through a reverse auction to fill in coverage in "dead zones" that currently lack 3G wireless service. In Phase I, $300 million was allocated throughout the country and an additional $50 million was set aside for tribal lands through the reverse auction described below . The Phase II Mobility Fund will have a budget of up to $500 million per year (up to $100 million of which is reserved for tribal lands), with the method of disbursement to be determined in a further NPRM. Phase II funding will be provided to areas that lack 4G wireless service. The CAF will support service to homes, businesses, and anchor institutions, using any technology that can meet the technical requirements.

On September 27, 2012, the FCC conducted a single round, sealed bid, reverse auction to award up to $300 million in one-time Mobility Fund Phase I support to successful bidders that commit to provide 3G, or better, wireless service in areas designated as unserved by the FCC. This auction was designated by the FCC as Auction 901. U.S. Cellular and several of its wholly-owned subsidiaries participated in Auction 901 and were winning bidders in eligible areas within 10 states and will receive up to $40.1 million in one-time support from the Mobility Fund, $13.4 million of which was received as of December 31, 2013. In connection with these winning bids, in June 2013, U.S. Cellular provided $17.4 million in letters of credit to the FCC. Pursuant to the auction rules, winning bidders must complete network build-out projects to provide 3G or 4G service to these areas within two or three years, respectively, and must also make their networks available to other providers for roaming. Winning bidders will receive support funding primarily upon achievement of coverage milestones defined in the auction rules. As a winning bidder, U.S. Cellular will be required to meet certain regulatory conditions in the areas where it will receive funding to provide service. Examples of these regulatory conditions include: allowing other carriers to colocate on U.S. Cellular's towers, allowing voice and data roaming on U.S. Cellular's network, and submitting various reports and certifications to retain eligibility each year. It is possible that additional regulatory requirements will be imposed pursuant to the FCC's Reform Order.

The terms and rules for participating in the CAF and Phase II Mobility Fund as a wireless eligible telecommunications carrier ("ETC") have not been developed yet by the FCC. It is uncertain whether U.S. Cellular will obtain support through the CAF or Phase II of the Mobility Fund. If U.S. Cellular is successful in obtaining support, it will be required to meet certain regulatory conditions to obtain and retain the right to receive support including, for example, allowing other carriers to colocate on U.S. Cellular's towers, allowing voice and data roaming on U.S. Cellular's network, and submitting various reports and certifications to retain eligibility each year. It is possible that additional regulatory requirements will be imposed pursuant to the FCC's Reform Order.

U.S. Cellular's current ETC support is being phased down. ETC support was frozen on January 1, 2012 at the 2011 level and is being phased down at the rate of 20% per year beginning July 1, 2012. If the Phase II Mobility Fund is not operational by July 2014, the phase down will halt at that time and U.S. Cellular will continue to receive 60% of its baseline support until the Phase II Mobility Fund is operational.

With respect to intercarrier compensation, the Reform Order provides for a reduction in the charges that U.S. Cellular pays to wireline phone companies to transport and terminate calls that originate on U.S. Cellular's network, which has reduced U.S. Cellular's operating expenses. The reductions in intercarrier charges are to increase over the next five to ten years, further reducing U.S. Cellular's operating expenses.

The FCC's Reform Order, and any subsequent orders it adopts to reform universal service and intercarrier compensation, are subject to judicial review. Multiple appeals of the Reform Order were consolidated and argued in the U.S. Court of Appeals for the 10 th Circuit on November 19, 2013, with a decision anticipated in 2014. At this time, U.S. Cellular cannot predict the timing or outcome of any such decision, or whether such decision or any future rulemaking, reconsideration and legal challenges would result in a material adverse effect on U.S. Cellular's business, financial condition or results of operations.

U.S. Cellular also cannot predict the net effect of the FCC's changes to the USF high cost support program in the Reform Order or whether reductions in support will be fully offset with additional support from the CAF or the Mobility Fund. Accordingly, U.S. Cellular cannot predict whether such changes will have a material adverse effect on U.S. Cellular's business, financial condition or results of operations.

Middle Class Tax Relief and Job Creation Act of 2012 . In 2012, Congress adopted the Middle Class Tax Relief and Job Creation Act of 2012 ("Spectrum Act") granting the FCC, among other matters, general authority to conduct incentive auctions including an incentive auction of broadcast television spectrum, and establishing a three year deadline for the FCC to reallocate, auction and grant new commercial licenses in the following bands, 1915-1920 MHz paired with 1995-2000 MHz (collectively the "H Block"), and 15 MHz within 1675-1710 MHz, 2155-2180 MHz, and 15 MHz "to be identified by the FCC" (collectively, the "AWS-3 Blocks"). In late 2012 and continuing in 2013, the FCC commenced proceedings to implement these mandates in the Spectrum Act. In 2013, the FCC completed rules to auction and license ten megahertz of paired H Block spectrum for terrestrial fixed and mobile use as required by the Spectrum Act. The FCC commenced the auction for this H block spectrum in January 2014. The FCC's proceedings to prepare for the auction of the AWS-3 Blocks and to hold a separate incentive auction of broadcast television spectrum to expand mobile broadband service remain pending. The FCC has indicated its intention to auction the AWS-3 Blocks in late 2014 in order to satisfy a Spectrum Act licensing deadline of February 2015. Commencement of the FCC's incentive auction of broadcast television spectrum is expected in 2015. The Spectrum Act does not specify a deadline for commencement of this incentive auction.

Net Neutrality. In 2009, the FCC initiated a rulemaking proceeding designed to codify its existing "Net Neutrality" principles and impose new requirements that could have the effect of restricting the ability of wireless internet service providers to manage applications and content that traverse their networks. In December 2010, after a lengthy proceeding which considered different approaches including the "reclassification" of internet access as "common carrier" service under Title II of the Communications Act, the FCC adopted a net neutrality rule based on its Title I "ancillary" authority to enforce different parts of the Communications Act. The rule requires all providers of broadband internet access, including both fixed (that is, telephone and cable) and wireless providers, to publicly disclose accurate information regarding their network management practices, performance and commercial terms sufficient for consumers to make informed choices regarding the use of such services. The rule also prohibits all internet providers from blocking consumers' access to lawful websites, subject to reasonable network management, and from blocking applications that compete with the provider's voice or video telephony services, also subject to reasonable network management. The rule subjects the providers of fixed but not wireless broadband internet access to a prohibition on "unreasonable discrimination" in transmitting internet traffic over their networks, also subject to reasonable network management. The exemption of wireless providers from this part of the rule reflects recognition of the capacity constraints and other "special conditions" under which mobile broadband service is offered and the competitive nature of evolving wireless networks. Thus, the FCC considered it appropriate in 2010 to take only the "measured steps" with respect to mobile broadband service reflected in the rule. The net neutrality rules are controversial and have been challenged in the courts. On January 14, 2014, a three judge panel of the U.S. Court of Appeals for the District of Columbia Circuit vacated the "anti-blocking" and "anti-discrimination" portions of the FCC's net neutrality rules, leaving in place the disclosure requirements of the rules. In a public statement made on February 19, 2014, the Chairman of the FCC indicated that the agency does not plan to appeal the Court's decision, but will consider ways to achieve its policy goals with respect to the "anti-blocking" and "anti-discrimination" provisions within the authority allowed by the Court's decision, in particular authority granted under Section 706 of the Telecommunications Act of 1996. The Chairman proposed a new rulemaking proceeding to advance that process with a Notice of Proposed Rulemaking anticipated later this year. U.S. Cellular cannot predict the outcome of this proceeding.

Data Roaming. In 2007, the FCC adopted a rule requiring that wireless carriers offer "voice" roaming agreements to each other on a just, reasonable and non-discriminatory basis. The FCC stated that this was a common carrier obligation under Title II of the Communications Act. In 2011, the FCC broadened this obligation to require carriers to offer wireless "data" roaming agreements to each other. However, because this obligation involved the use of the Internet, it could not be a "common carrier" obligation. Thus, the FCC grounded the obligation in Title III of the Communications Act, under which the FCC regulates use of the radio spectrum. This order was challenged in the U.S. Court of Appeals for the District of Columbia Circuit on the grounds that it constituted an unlawful common carrier regulation. However, in December 2012, the court upheld the FCC's ruling. U.S. Cellular was an intervenor in the case in support of the FCC and believes that the FCC and court rulings will be beneficial to it and similarly situated wireless carriers.

Network Resiliency . On September 27, 2013, the FCC released a Notice of Proposed Rulemaking seeking comment on a proposed rule requiring wireless carriers to submit to the FCC, on a daily basis, for public disclosure, the percentage of their cell sites that are providing wireless service during and immediately after major disasters. The FCC also seeks comment on whether other measures of service outages during disasters might be appropriate and asks for proposals regarding other approaches to measuring network resilience. A decision on this proceeding is anticipated in 2014. Complying with such a mandate would not be expected to have a material adverse effect on U.S. Cellular's operations.

Customer Proprietary Network Information . Wireless carriers are required under Section 222 of the Communications Act to protect the confidentiality of customer information they receive as a consequence of the customer-carrier relationship, such as "call detail" information. Such information is referred to as "Customer Proprietary Network Information" ("CPNI"). On June 13, 2013, the FCC issued a Declaratory Ruling stating that Section 222 also applies to information "collected" by a wireless subscriber's mobile device, provided the collection is undertaken at the carrier's direction and the carrier still has access to or control over that information. This extends the reach of the CPNI definition beyond CPNI stored in a carrier's switches, servers or other places where they store information. U.S. Cellular will comply with this ruling.

Rural Call Completion . In 2013, the FCC adopted new rules concerning "rural call completion," to take effect in 2014. The rules may increase costs by imposing new data-retention and reporting requirements on providers of long-distance voice service. U.S. Cellular is now determining the extent to which these rules are applicable to it, and how to comply with them. To the extent the rules are applicable, compliance could be costly, but otherwise is not expected to have a material adverse effect on U.S. Cellular's operations.

Spectrum Holdings. In September 2012, the FCC adopted an NPRM which proposed a review of its policies regarding mobile spectrum holdings in the context of both auctions and secondary market transactions. Comments and reply comments were filed in November 2012 and January 2013. In the proceeding, the FCC sought and received comment on whether it should retain or modify the current case by case analysis used to evaluate mobile spectrum holdings, or adopt "bright line" limits on the amount of wireless spectrum which may be held by any carrier.

The FCC also is considering updating the spectrum bands included in the evaluation of mobile spectrum holdings and whether to make distinctions between different bands in evaluating spectrum holdings. The FCC also is re-examining its determinations of geographic and product markets in the context of evaluating wireless transactions. It also is reviewing its spectrum "attribution" rules and remedies if a proposed transaction does not comply with its rules or policies.

FCC Interoperability Order. On October 25, 2013, the FCC adopted a Report and Order and Order of Proposed Modification confirming a voluntary industry agreement on interoperability in the Lower 700 MHz spectrum band. The FCC's Report and Order lays out a roadmap for the voluntary commitments of AT&T and DISH Network Corporation ("DISH") to become fully binding under a regulatory framework which will require the FCC to take additional actions proposed to be completed by the first quarter of 2014. Pursuant to this voluntary agreement, AT&T will begin incorporating changes in its network and devices that will foster interoperability across all paired spectrum blocks in the Lower 700 MHz Band, collectively comprising "Band 12" under the standards of the 3rd Generation Partnership Project ("3GPP"). AT&T also agreed to support LTE roaming on its networks for carriers with compatible Band 12 devices, consistent with the FCC's rules on roaming. As outlined in its voluntary commitment, AT&T will be implementing the foregoing changes in phases starting with network software enhancement taking place possibly through the third quarter of 2015 with the AT&T Band 12 device roll-out to follow. In addition, the FCC has adopted changes in its technical rules for certain unpaired spectrum licensed to AT&T and DISH in the Lower 700 MHz band to enhance prospects for Lower 700 MHz interoperability. AT&T's network and devices currently only interoperate across two of the three paired blocks in the Lower 700 MHz band. U.S. Cellular's LTE deployment utilizes spectrum in all three of these blocks and consequently was not interoperable with the AT&T configuration. U.S. Cellular believes that the FCC action will broaden the ecosystem of devices available to U.S. Cellular's customers over time.

U.S. Cellular cannot predict what, if any, changes the FCC will make to the foregoing rules, but intends to comply with all applicable requirements.

State and Local Regulation. U.S. Cellular is subject to state and local regulation in some instances. In 1981, the FCC preempted the states from exercising jurisdiction in the areas of licensing, technical standards and market structure. In 1993, Congress preempted states from regulating the entry of wireless systems into service and the rates charged by wireless systems to customers. The siting and construction of wireless facilities, including transmitter towers, antennas and equipment shelters are still subject to state or local zoning and land use regulations. However, in 1996, Congress amended the Communications Act to provide that states could not discriminate against wireless carriers in tower zoning proceedings and had to decide on zoning requests with reasonable speed. In addition, states may still regulate other terms and conditions of wireless service.

In 2009, the FCC adopted a rule, subsequently upheld by the Supreme Court, which provides that local zoning authorities must act on tower "colocation" requests within 90 days and must act within 150 days on applications for new facilities. Failure to act during those time frames constitutes a "failure to act" under the statute and the courts may fashion an appropriate remedy. Also, in 2012, Congress enacted Section 6409(a) of the Communications Act, which requires local zoning authorities to approve wireless carrier requests for modifications of existing wireless antenna towers or base stations which do not "substantially change" the "physical dimensions" of the tower. These changes in FCC regulations and the Communications Act were intended to promote tower construction and antenna colocation and thus should be helpful to U.S. Cellular and other wireless carriers.

In 2000, the FCC ruled that the preemption provisions of the Communications Act do not preclude the states from acting under state tort, contract, and consumer protection laws to regulate the practices of commercial mobile radio service carriers, even if such activities might have an incidental effect on wireless rates. This ruling has led to more state regulation of commercial mobile radio service carriers, particularly from the standpoint of consumer protection. U.S. Cellular intends to comply with state regulation and to seek reasonable regulation of its activities in this regard.

The FCC is required to forbear from applying any statutory or regulatory provision that is not necessary to keep telecommunications rates and terms reasonable or to protect consumers. A state may not apply a statutory or regulatory provision that the FCC decides to forbear from applying. In addition, the FCC must review its telecommunications regulations every two years and change any that are no longer necessary. Further, the FCC is empowered under certain circumstances to preempt state regulatory authorities if a state is obstructing the Communications Act's basic purposes.

U.S. Cellular and its subsidiaries have been and intend to remain active participants in proceedings before the FCC and state regulatory authorities. Proceedings with respect to the foregoing policy issues before the FCC and state regulatory authorities could have a significant impact on the competitive market structure among wireless providers and the relationships between wireless providers and other carriers. U.S. Cellular is unable to predict the scope, pace or financial impact of policy changes which could be adopted in these proceedings.

Radio Frequency Emissions. The FCC has adopted rules specifying standards and the methods to be used in evaluating radio frequency ("RF") emissions from radio equipment, including network equipment and wireless devices used in connection with commercial mobile radio service. These rules were upheld on appeal by the U.S. Court of Appeals for the Second Circuit in 2000.

The U.S. Supreme Court declined to review the Second Circuit's ruling. U.S. Cellular's network facilities and the wireless devices it sells to customers comply with these standards.

In August 2012, the Government Accountability Office ("GAO") issued a report which recommended that the FCC reassess its current radio frequency emission limits. In response to the GAO request, on March 29, 2013, the FCC released its First Report and Order ("Order"), Further Notice of Proposed Rulemaking ("FNPRM") and Notice of Inquiry ("NOI") concerning RF radiation issues. Comments on the FNPRM and NOI were filed during 2013 and the FCC may take further action in 2014. The Order resolves certain minor and technical issues. The FNPRM proposes to update the FCC's RF exposure regulations, by changing evaluation procedures and proposing certain exemptions from evaluation. The NOI seeks comment on possible new policies regarding RF exposure, and regarding whether present exposure limits should be changed to make them either more stringent or more lenient. U.S. Cellular cannot predict future FCC actions with respect to RF radiation or whether such actions might have a material adverse effect on U.S. Cellular's operations.

TDS Telecom Operations

General

TDS Telecommunications Corporation ("TDS Telecom") was incorporated under the laws of the state of Delaware in 1988. At December 31, 2013, TDS Telecom's consolidated operating markets cover approximately 1.1 million wireline and cable connections and HMS operations in 36 states. TDS Telecom operates in three reportable segments: Wireline, Cable and HMS.

TDS Telecom provides diversified telecommunications services including wireline and cable broadband, video and voice and hosted and managed services. TDS Telecom's wireline and cable subsidiaries provide high-quality telecommunications services to commercial and residential customers primarily in rural and suburban communities. As of December 31, 2013, TDS Telecom operates 115 incumbent local exchange carriers ("ILEC") in 28 states and provides telecommunications services as a competitive local exchange carrier ("CLEC") in Illinois, Michigan, Minnesota, and Wisconsin. Cable was formed through the acquisition of a cable business, Baja Broadband LLC ("Baja"), in August 2013, and provides high-quality video, broadband, and voice to residential and commercial customers in six western states primarily including Colorado, New Mexico, Texas and Utah. TDS Telecom also provides hosted and managed services ("HMS") under the OneNeck IT Solutions ("OneNeck") brand, which specializes in planning, engineering, procurement, installation, sales and management of Information Technology ("IT") infrastructure, including: hosted application management, managed hosting, and ReliaCloud enterprise cloud services. HMS operates data centers in Arizona, Iowa, Minnesota and Wisconsin.

Telecom Business Development Strategy

In the last five years, TDS or TDS Telecom has acquired a cable business; five hosted and managed service businesses; and one ILEC for consideration totaling $525.9 million. TDS Telecom may make additional opportunistic acquisitions in the future that further strengthen its operations. TDS Telecom's acquisition strategy is to identify and target companies that support cost economies and complement TDS Telecom's product and services growth strategy. As part of this strategy, TDS Telecom may also seek to divest or exchange interests that are not strategic to its long-term success.

While management believes that it will be successful in making additional acquisitions, there can be no assurance that TDS or TDS Telecom will be able to negotiate additional acquisitions on terms acceptable to them or that regulatory approvals, where required, will be received. In general, TDS may not disclose such transactions until there is a definitive agreement.

WIRELINE OPERATIONS

Wireline operations are located in a mix of rural, small town and suburban markets and urban markets, with the largest concentrations of its customers in the Upper Midwest and the Southeast. Wireline operations provide retail telecommunications services to both residential and commercial customers that reside within its respective service territories. Wireline also provides services to wholesale customers, who are primarily interexchange carriers (companies that provide long-distance telephone and data services between local exchange areas) that compensate TDS Telecom for the use of its facilities to originate and terminate their voice and data transmissions. The table below provides information about Wireline connections as of December 31, 2013.

Wireline Connections as of December 31, 2013 (1)

State	Residential	Commercial	Total	Percent of Total
Wisconsin	141,200	138,700	279,900	29%
Tennessee	86,100	21,300	107,400	11%
Michigan	28,800	68,500	97,300	10%
Minnesota	28,600	57,500	86,100	9%
Georgia	48,700	9,500	58,200	6%
New Hampshire	31,700	7,500	39,200	4%
Indiana	30,000	6,000	36,000	4%
Maine	21,400	4,400	25,800	3%
Alabama	20,700	4,900	25,600	3%
Oklahoma	18,800	3,900	22,700	2%
Total for 10 Largest States	456,000	322,200	778,200	81%
Other States	136,900	50,900	187,800	19%
Total	592,900	373,100	966,000	100%

(1) "Connections" are the sum of physical access lines and high-capacity data circuits via various technologies including Digital Subscriber Line ("DSL") and dedicated internet, plus the number of telephone handsets, Internet Protocol television ("IPTV"), data lines and IP trunks providing communications using IP networking technology. A physical access line is the individual circuit connecting a customer to a telephone company's central office facilities.

Wireline Products, Services and Revenue Sources

Wireline operations generate revenues by providing the following products and services to commercial and residential customers and carriers:

- Voice services, including basic local and long-distance telephone service, Voice over Internet Protocol ("VoIP") and enhanced local services like voice mail, caller ID and call forwarding;
- Broadband services, including DSL, other forms of high-speed internet and other enhanced data services;
- Network access services to interexchange carriers for the origination and termination of interstate and intrastate long distance phone calls on TDS Telecom's network and special access services to carriers and others; and
- IPTV and satellite video.

The following table summarizes Wireline Operating revenue by category:

For Year Ended December 31, 2013

(Dollars in thousands)	Revenue	%
Residential	$ 293,217	40%
Commercial	232,910	32%
Wholesale	200,440	28%
Total Operating Revenue	$ 726,567	100%

Residential . Wireline residential customer operations provide diversified telecommunications services, including local and long-distance telephone service, high-speed data products and video services. Video services are offered through either its own IPTV offering or through a resale agreement with a satellite provider. Wireline provides long-distance service by reselling long-distance service in its markets and through connections with long-distance carriers which purchase network access from TDS Telecom. Residential customer operations account for 61% of Wireline connections and 40% of total Wireline revenue.

Wireline's residential customer strategy within its CLEC markets is to provide continuing service to its current residential customer base with high quality customer service and competitive pricing, but not to seek any new residential customers due to their high acquisition costs and due to regulatory changes which have increased network cost and limited network availability. Therefore, it is expected that the number of residential customers within the CLEC markets will continue to decline. There are

19,300 CLEC residential connections remaining at December 31, 2013.

Commercial. Wireline commercial customer operations provide high-quality voice and data solutions including local and long-distance telephone service, broadband, IP based services, and other services to businesses within its markets that are typically small to medium sized businesses, but may include large corporations. Wireline operations provide these commercial customers with secure and reliable internet access, data connections and advanced voice service with innovative VoIP features. Wireline operations address customer needs for increased communications capabilities at reduced costs by matching these needs to new and existing technologies to create greater efficiencies and by providing support for these technologies after the sale. The Wireline flagship product is managedIP, a fully-hosted, software and hardware solution that provides customers with a secure internet connection and the latest VoIP features and capabilities. ManagedIP is available in selected markets covering 84% of all commercial customers at December 31, 2013.

Wholesale. Wireline operations continue to provide a high level of service to traditional interexchange carriers. Wireline's wholesale market focus is on access revenues, which is the compensation received for carrying long distance and data traffic on its networks . Universal Service Fund ("USF") revenues, which support the cost of providing telecommunication services in high cost areas, are also included in wholesale service revenues. In 2013, TDS Telecom received $200 million in wholesale revenues which included approximately $86 million received under all the USF programs. Recent and proposed regulatory changes may affect the amounts of Wireline future wholesale revenues. See "Wireline Regulation" below.

Wireline Strategy

Wireline seeks to be the preferred telecommunications solutions provider in its markets for both residential and commercial customers by developing and delivering high-quality products that meet or exceed customers' needs and to outperform the competition by delivering superior customer service. The Wireline residential customer strategy is to provide voice, high-speed data, and video services through value-added bundling of products. The commercial focus is to provide advanced IP-based voice and data services. Wireline is actively investing in the continuing transformation of its traditional telecom networks as it works to economically deploy advanced technologies and new services. Wireline continues to champion economic development by actively advocating for state and federal regulatory frameworks that enable its operations to grow and invest profitably and continue to meet customer expectations for new and improved services.

Wireline believes that its residential and business customers have a strong preference to purchase complementary telecommunications services from a single provider. Wireline has found that by offering and bundling services in customer-friendly packages, it can build customer loyalty and reduce customer churn. Wireline offers bundles which include a full array of telephone services, high-speed data services and video services.

Wireline's objective is to be the preferred broadband provider in its ILEC residential markets by offering a wide range of premium internet services. It continues to invest in high-speed data service and as of December 31, 2013, was able to provide this service to 96% of its ILEC physical access lines. At that date, 61% of the households passed in its ILEC markets had 10 megabits per second ("Mbps") or faster service available. In selected residential markets, Wireline will lead its marketing and promotional strategies with superior quality IPTV. This interactive video offering is intended to counter intensifying competition for video service and retain the video component of triple play customer bundles. In markets where IPTV is not offered, TDS Telecom has partnered with a satellite TV provider to allow for triple play bundling.

Wireline has continued to expand its presence in the business broadband market with hosted-managedIP telephony, high-speed symmetrical dedicated broadband and point-to-point Ethernet services. ManagedIP delivers business customers a converged voice and data communications solution to the desktop. Point-to-point Ethernet provides customers secure and reliable high-speed data links for two or more locations over TDS Telecom's internal network, not the public Internet. The long-term strategy includes leveraging products such as managedIP and hosted and managed services to all of Wireline's commercial customers, differentiating both on service excellence and a superior product portfolio.

Wireline focuses its commercial marketing on information-intensive industries such as financial services, health services, real estate, hotels and motels, retail, education and government. Wireline uses its direct sales force, agents, digital marketing, targeted mailings, and telemarketing to sell products and services to commercial markets, which are segmented into tiers based on size (in terms of connections and revenues) and strategic importance. Different sales and distribution channels are used to target each segment.

The following table summarizes additional information regarding Wireline connections for December 31, 2013.

Residential connections	
Voice (1)	352,100
Broadband (2)	227,000
IPTV (3)	13,800
Residential connections	592,900
Commercial Connections	
Voice (1)	218,400
Broadband (2)	27,100
managedIP (4)	127,600
Commercial connections	373,100
Total connections	966,000

(1) The individual circuit or "access line" connecting customers to TDS Telecom's central office facilities.

(2) The number of customers provided high-capacity data circuits via various technologies, including DSL and dedicated internet circuit technologies.

(3) The number of video customers receiving programming from TDS Telecom's IP distribution system.

(4) The number of telephone handsets, data lines and IP trunks providing communications using IP networking technology.

Wireline Network Architecture and Technology

Wireline operates an integrated, highly-reliable network that consists of central office host and remote sites, primarily equipped with digital and IP switches. Fiber optic and copper cable connect the host central offices with remote switches and ultimately with end customers. Wireline continues to upgrade and expand its telecommunications network to respond to the needs of its customers for greater bandwidth and advanced technologies. The network is transitioning from its legacy circuit-switched network to a highly reliable IP-based broadband network to facilitate the integration of voice services, broadband, and video. Wireline has pursued a plan to deploy fiber technology, which enables significantly greater broadband speeds to selected residential subdivisions and to commercial customers, when the investment is economically justified.

Wireline has developed and deployed an inter-regional data routing infrastructure using leased fiber capacity which allows it to reach over 85% of its physical access lines with its multi-gigabyte core network. This configuration along with the continued development of an IP network that interconnects substantially all the existing service territories allows for next generation IP service offerings; namely, IPTV, managedIP, residential VoIP and least-cost routing as well as comprehensive IP policy management.

Wireline is also standardizing equipment and processes to increase efficiency in maintaining its network. Wireline utilizes centralized monitoring and management of its network to reduce costs and improve service reliability. Network standardization has supported TDS Telecom in operating its 24-hours-a-day / 7-days-per-week Network Management Center, which continuously monitors the network in an effort to proactively identify and correct network faults prior to any customer impact. In addition, TDS Telecom anticipates reducing costs through the sharing of best practices across operations, centralization or standardization of functions and processes, and deployment of technologies and systems that provide for greater efficiencies and profitability.

Wireline Competition

The competitive environment in the telecommunications industry has changed significantly as a result of technological advances, customer expectations and changes to regulation. Wireline continues to seek to develop and maintain an efficient cost structure to ensure that it can compete with price-based initiatives from competitors. Wireline is faced with significant challenges, including competition from cable, VoIP, wireless and other wireline providers as well as decreases in intercarrier compensation received for the use of TDS Telecom's networks. These challenges could have a material adverse effect on the financial condition, results of operations and cash flows of TDS Telecom.

Wireline has experienced physical access line losses and access minute declines due to competition from wireless carriers

offering local and nationwide voice and data plans, from cable providers offering voice and data services via cable modems, and from other VoIP providers.

Cable companies have developed technological improvements that have allowed them to extend their competitive operations beyond major markets and have enabled them to provide a broader range of voice and data services over their cable networks. Several national cable companies have aggressively pursued the bundling of voice communications, data and video at discounted prices to attract customers from traditional telephone companies. In addition, cable companies continue to add value to their internet offerings by increasing speeds at no cost to the customer. Wireline estimates that 70% of its ILEC access lines face active competition from cable providers at December 31, 2013 . Cable companies are increasingly targeting both residential and commercial customers.

Wireless telephone service providers offering feature-rich wireless devices and improved network quality constitute a significant source of competition. A growing segment of customers have chosen to completely forego the use of traditional wireline telephone service and instead rely solely on wireless service for voice communications services. This trend is more pronounced among residential customers, which comprise approximately 61% of Wireline connections as of December 31, 2013 . Some small businesses may follow the residential path by choosing wireless service and disconnecting wireline service. Increasing penetration of wireless broadband services has led to substitution for wireline services, including long-distance, which impacts both Wireline retail and access revenue.

VoIP technology also has improved and has led cable, internet and other communications companies to substantially increase their offerings of VoIP service to commercial and residential customers. VoIP providers route calls partially or wholly over the Internet, without the use of ILEC circuit switches and, in the case of cable operators and CLECs, without the use of ILEC networks to carry their communications traffic. VoIP providers frequently use existing internet networks to deliver flat-rate, all-distance calling plans. These plans may also be priced below the prices currently charged for traditional ILEC local and long-distance telephone services.

While TDS Telecom positions itself as a high-quality telecommunications provider, it is experiencing competition from Regional Bell Operating Companies ("RBOCs") in areas where TDS Telecom competes as a CLEC, other CLECs, cable providers, wireless carriers, and VoIP providers as it seeks to gain and retain customers. In addition, the RBOCs are continuing to implement technological changes that could impede TDS Telecom's access to facilities used to provide CLEC telecommunications services. To mitigate this risk TDS Telecom is working on other forms of last mile access alternatives to deliver services.

Wireline Regulation

Regulatory Environment . As communications common carriers, the ILECs are subject to federal, state and local regulation. The Communications Act of 1934, as amended by the Telecommunications Act, provides the statutory framework for United States communications policy. The Federal Communications Commission ("FCC") generally exercises jurisdiction over all facilities of, and services offered by, communications common carriers to the extent those facilities are used to provide, originate or terminate interstate or international telecommunications. State public utility commissions generally exercise jurisdiction over intrastate communications facilities and services. Regulators establish and oversee the implementation of the provisions of federal and state telecommunications laws, including interconnection requirements, universal service obligations, promotion of competition, and the deployment of advanced services. Maximum rates for regulated interstate services are prescribed by the FCC, and local rates paid by end user customers and intrastate access charges paid by carriers that furnish traffic to TDS Telecom continue to be subject to state commission approval in many states. TDS Telecom routinely pursues desired changes in regulation and rate structures in an attempt to maintain affordable rates and reasonable earnings. Revenues generated from access charges to other carriers, support mechanisms and surcharges to end user customers are included in the financial results as components of Residential, Commercial and Wholesale Revenues.

Most of the ILEC subsidiaries participate in both the National Exchange Carrier Association ("NECA") interstate common line and traffic sensitive access charge tariffs and participate in the access revenue pools administered by the FCC-supervised NECA, which collects and distributes the revenues from interstate access charges. The FCC retains regulatory oversight over interstate long-distance rates and other issues relating to interstate telephone service and continues to regulate the interstate access system. Where applicable, and subject to state regulatory approval, TDS Telecom's ILEC subsidiaries also utilize intrastate access tariffs and participate in intrastate revenue pools.

The ILEC subsidiaries also draw from the federal and state universal service funds. Universal service support helps keep services in rural and underserved markets comparable in quality and price to services in more urban markets, as Congress mandated in the Telecommunications Act. Specifically, the High Cost Program of the federal USF ensures that consumers have access to and pay rates for telecommunications services in rural and underserved areas that are reasonably comparable to those provided in urban areas. TDS Telecom's subsidiaries draw from the USF because the cost of providing service in many of its rural markets is high, and all of those costs cannot be recovered solely from customers while still providing service that is reasonably comparable to services in urban markets.

The CLEC operations, like its ILEC operations, are regulated by federal, state and local agencies. However, CLECs are subject to significantly less regulation than ILECs. The FCC regulates many of the rates, charges and services of ILECs to a greater degree than those of CLECs. CLECs are also subject to fewer regulatory requirements in connection with their installation and operation of facilities for domestic interstate telecommunications. CLECs are not required to maintain tariffs for domestic interstate long-distance services. However, they are required to submit certain periodic reports to the FCC, pay regulatory fees, and meet certain other obligations.

The Telecommunications Act requires ILECs to provide requesting carriers such as the Wireline's CLECs with nondiscriminatory access to unbundled network elements ("UNEs") at cost-based rates. UNEs are components of ILEC networks that CLECs lease, and in some cases, combine with their own network facilities to provide services to end user customers. Subsequent rulings have modified the circumstances under which ILECs must make UNEs available to CLECs at cost-based rates, e.g., the extent to which ILECs must unbundle and make available fiber optic lines and broadband hybrid loops. This has had the practical effect of increasing CLEC costs to deliver certain high-capacity services to customers because CLECs no longer can rely on ILECs to lease them fiber lines and broadband hybrid loops at cost-based rates. CLEC options can be further limited by the fact that in many jurisdictions ILECs are retiring their copper lines, thus removing those lines as an option for CLEC use as UNEs in connection with the provision of DSL services. As a result of these factors, Wireline's CLEC today either must construct its own fiber optic lines and hybrid loops, pay a higher rate to lease these facilities from ILECs, or seek other alternative providers where available.

Federal Regulation

Wireline operations are required to comply with the Telecommunications Act, which requires, among other things, that communications common carriers offer interstate services when requested at just and reasonable rates at terms and conditions that are non-discriminatory. The Telecommunications Act's stated objective is to promote competition for the provision of local service by removing regulatory barriers to competing providers.

National Broadband Plan. In 2009, Congress directed the FCC to develop a National Broadband Plan (the "Plan") to ensure every American has "access to broadband capability." In March 2010, the FCC released the Plan which describes the FCC's goals in enhancing broadband availability and the methods for achieving those goals over the next decade. Since that time, the FCC has taken steps to implement several aspects of the Plan, including comprehensively reforming its USF and intercarrier compensation regime.

USF and ICC Reform Order. Pursuant to the Plan and subsequent notices of proposed rulemaking, on November 18, 2011, the FCC released a Reform Order adopting reforms of its universal service and intercarrier compensation mechanisms, establishing a new broadband-focused support mechanism, and proposing further rules to advance reform. Prior to the Reform Order, the intercarrier compensation system had carriers recovering their costs, in part, from one another. The Reform Order established certain rules for transitioning, over time, from the existing system to one where carriers will recover their costs directly from their end user subscribers. The Reform Order also was accompanied by a Further Notice of Proposed Rulemaking seeking comment on a range of follow up proposals. The future proposed rulemaking is especially important to TDS Telecom, as numerous issues relevant to rate of return carriers will be addressed in it. The Reform Order also has been the subject of numerous Petitions for Reconsideration, which have asked the FCC to reconsider portions of its decision, and it is also the subject of a judicial appeal pending before the U.S. Court of Appeals for the Tenth Circuit. Oral argument before the designated Tenth Circuit panel regarding the various legal challenges to the Reform Order took place on November 19, 2013. However, there is no set deadline for the Court to issue its decision and any decision may be subject to further review by the full Tenth Circuit, by the U.S. Supreme Court, and/or in further proceedings before the FCC on remand. TDS Telecom cannot predict the timing or outcome of future rulemaking, reconsideration and legal challenges and as a consequence, the impacts they may have on Wireline wholesale revenues.

The FCC has determined that the deployment of both wireline and wireless broadband facilities should be supported by universal service mechanisms, with one wireline carrier and one mobile carrier receiving support in each area. This aspect of the FCC's decision could subject Wireline operations to additional competitive forces and improve the financial position of its competitors.

For rate of return carriers such as Wireline operations, the Reform Order establishes a $2 billion annual fund that is intended to maintain existing levels of support in the aggregate while at the same time transitioning support mechanisms so that, over time, rate of return carriers receive support for the deployment of wireline broadband facilities principally through the Connect America Fund ("CAF") rather than through the intercarrier compensation regime. To effectuate the first phase of this effort, the Reform Order: establishes benchmarks that limit certain reimbursable capital and operating expenses for determining High Cost Loop Support; reduces High Cost Loop Support on a dollar-for-dollar basis where a carrier's local rates are set below a specified urban local rate floor; phases out safety net additive support; eliminates local switching support; eliminates support for service areas that overlap with the service areas of others; and imposes a $250 absolute cap on per line support. Although the Reform Order is intended to permit rate of return carriers to recover any lost support through the explicit support mechanism in the CAF, it remains unclear whether the CAF will provide Wireline with the same level of support over time that Wireline currently receives.

With respect to intercarrier compensation, the Reform Order provides for a reduction in the charges that Wireline operations pay to other carriers to transport and terminate calls that originate on Wireline's network, which will reduce Wireline's operating expenses. However, Wireline also receives revenue from other carriers to transport and terminate calls that originate on those carriers' networks. As a general matter, the amount and timeframe for these reductions will depend on the nature of the traffic at issue. In some cases, such as with the exchange of traffic between wireline and wireless carriers, the reduction is scheduled to occur quickly, whereas in other cases, such as with the exchange of traffic between wireline rate of return carriers, the reduction is scheduled to occur over a period of time. The fundamental goal of the Reform Order is to, over time, transition all intercarrier compensation to a default "bill and keep" arrangement so that, in the absence of some commercial arrangement, support for the deployment of broadband services is based solely on funds received from the CAF and end-user customers. As reductions in intercarrier charges increase over the next five to ten years, Wireline's related revenues and operating expenses are expected to decline.

Net Neutrality. The FCC has classified internet access service as an "information service," which is subject to substantially less regulation than traditional "telecommunications services" under federal law and generally is not subject to state or local government regulation. However, in 2009, the FCC initiated a rulemaking proceeding designed to codify its existing "Net Neutrality" principles and impose new requirements that could have the effect of restricting the ability of wireless internet service providers to manage applications and content that traverse their networks. In December 2010, after a lengthy proceeding that considered different approaches, including the "reclassification" of internet access as "common carrier" service under Title II of the Communications Act, the FCC adopted net neutrality rules based on its Title I "ancillary" authority to enforce different parts of the Communications Act. The rules require all providers of broadband internet access, including both fixed (that is, telephone and cable) and wireless providers, to publicly disclose accurate information regarding their network management practices, performance and commercial terms, sufficient for consumers to make informed choices regarding the use of such services. The rules also prohibit all internet service providers from blocking consumers' access to lawful websites, subject to reasonable network management, and from blocking applications that compete with the provider's voice or video telephony services, also subject to reasonable network management. The rules subject providers of fixed but not wireless broadband internet access to a prohibition on "unreasonable discrimination" in transmitting internet traffic over their networks, also subject to reasonable network management. The exemption of wireless providers from this part of the rule reflects a recognition of the capacity constraints and other "special conditions" under which mobile broadband service is offered and the competitive nature of evolving wireless networks. The net neutrality rules are controversial and have been challenged in the courts. On January 14, 2014, a three judge panel of the U.S. Court of Appeals for the District of Columbia Circuit vacated the "anti-blocking" and "anti-discrimination" portions of the FCC's net neutrality rules, leaving in place the disclosure requirements of the rules. In a public statement made on February 19, 2014, the Chairman of the FCC indicated that the agency does not plan to appeal the Court's decision, but will consider ways to achieve its policy goals with respect to the "anti-blocking" and "anti-discrimination" provisions within the authority allowed by the Court's decision, in particular authority granted under Section 706 of the Telecommunications Act of 1996. The Chairman proposed a new rulemaking proceeding to advance that process with a Notice of Proposed Rulemaking anticipated later this year. TDS Telecom cannot predict the outcome of this proceeding.

American Recovery and Reinvestment Act. Congress enacted the American Recovery and Reinvestment Act of 2009, ("the Recovery Act"), which provides, among other things, for an aggregate appropriation of $7.2 billion to fund grants and loans to provide broadband infrastructure, access and equipment to consumers residing in rural, unserved or underserved areas of the United States. Under the Recovery Act, Wireline operations will receive $105.1 million in federal grants and will provide $30.9 million of its own funds to complete 44 projects. Wireline began these projects in 2011 and expects to complete them before June 2015 as required under the terms of the grants. As of December 31, 2013 , Wireline has made $115.1 million of total capital expenditures under this program, has received reimbursement for $63.6 million in grants, and has requested or will request reimbursement for an additional $23.6 million.

Rural Call Completion. In 2013, the FCC adopted new rules concerning "rural call completion," to take effect in 2014. The rules may increase costs by imposing new data-retention and reporting requirements on providers of long-distance voice service.

Other federal regulations. The FCC and various provisions of federal law require carriers to comply with numerous regulatory requirements. Compliance with these requirements may be costly and noncompliance can lead to lawsuits and financial penalties. These requirements include letting subscribers change to competitors' services without changing their telephone numbers, taking actions to preserve the available pool of telephone numbers, making telecommunications accessible for those with disabilities, monitoring and reporting network outages, and properly handling and protecting customer proprietary network information. Under the Communications Assistance to Law Enforcement Act, all telecommunications carriers, including Wireline operations, must implement certain equipment changes necessary to assist law enforcement authorities in achieving an enhanced ability to conduct electronic surveillance of those suspected of criminal activity. TDS Telecom believes it is in material compliance with these requirements.

State Regulation

State regulators generally must approve rate adjustments, service areas and service standards and these regulators are authorized to limit the return earned on capital, subject to applicable state law. In some states, construction plans, borrowing, affiliated charge transactions and certain other financial transactions of ILECs are also subject to regulatory oversight and approval. Historically, states have designated a single ILEC as the provider of last resort in a local market and then regulated the entry of additional competing providers into the same local market. However, the Telecommunications Act largely preempted state authority over market entry. While states retain authority to regulate competitive entry in rural telephone company service areas, states may not impose requirements that effectively function as barriers to entry, and the FCC is required to preempt state requirements if they impose such barriers to entry.

As a general matter, Wireline operations have elected alternative forms of regulation for its ILEC subsidiaries in most states and will continue to pursue alternative regulation, as appropriate, for its remaining ILEC subsidiaries. Alternative regulation typically limits the ability to increase rates for local service, but relieves Wireline operations from the requirement to meet certain earnings tests and allows more flexibility in the pricing of enhanced and bundled service offerings.

CLECs are also subject to state regulation. Certain states require CLECs to obtain operating authority prior to initiating intrastate services. Certain states also require the filing of tariffs or price lists and/or customer-specific contracts. The CLEC operations are not currently subject to rate-of-return or price regulation. However, CLECs are subject to state-specific quality of service, universal service, periodic reporting and other regulatory requirements, although the extent of these requirements generally is less than those applicable to ILECs. In addition, local governments may require CLECs to obtain licenses or franchises which regulate the use of public rights-of-way necessary to install and operate their networks.

CABLE OPERATIONS

On August 1, 2013, TDS Telecom acquired through its parent company TDS, substantially all of the assets of Baja, which operates cable systems in markets primarily in Colorado, New Mexico, Texas, and Utah. At December 31, 2013, Baja's cable plant served 147,400 total video, broadband and voice connections. Baja operates high-quality hybrid fiber and coaxial cable networks capable of delivering advanced video, high-speed data and voice services to residential and business customers. Through its cable operation ("Cable"), TDS Telecom is able to leverage its core competencies in network management and customer focus to extend its broadband footprint.

Cable Products and Services

Residential

Cable offers advanced video, broadband and voice services utilizing a modernized network. Each of these services has a variety of features, which can be subscribed to on a stand-alone basis or in a bundle.

- Video: Customers are provided cable television services and programming offerings ranging from traditional analog cable offerings to full digital services. Customers have access to a basic service, pay-per-view channels and high definition television ("HDTV") combined with DVR service.

- Broadband: DOCSIS 3.0 technology is deployed to 96% of homes passed which allows Cable to offer transfer speeds from 4 Mbps for light users to 100Mbps for heavy users. Access to 24/7 technical support is also provided to broadband customers.

- Voice: Telephony service uses IP to transport digitized voice signals over the same private network that brings cable television and high-speed data services to customers. All residential voice service customers have access to direct international calling and can subscribe to various long distance plans.

In addition, services are actively bundled at competitive prices to encourage cross-selling within our customer base and to attract new customers. Approximately 35% of residential customers subscribe to a bundle of services.

Commercial

Business services are delivered over an advanced digital, fiber-optic platform providing high-speed broadband products, multi-line phone solutions and video. Cable provides advanced business services, including data networking, Ethernet, hosting, high speed broadband access and VoIP services, to small and medium sized businesses. Cable's commercial service team works closely with its customers' IT managers to develop customized telecommunications solutions and provides rapid implementation capabilities essential to the needs of businesses.

Cable Strategy

The foundation for Cable's business is the utilization of TDS Telecom's processes, procedures, shared support teams, IPTV experience, commercial expertise, and customer service focus to expand broadband offerings through its cable television business. TDS Telecom has begun to implement this strategy, commencing with the purchase of Baja, which strives to provide the best value and the fastest and most reliable high-speed data product as well as highest quality video and phone service in each of its markets.

Cable Technology and System Design

Cable telecommunication systems, when upgraded, are designed to transmit video, data and voice services over a broadband Hybrid Fiber-coaxial (or HFC) network that consists of optical fiber transport from a headend facility to nodes where coaxial cable is then used to reach the customer. These networks offer substantial bandwidth capacity and through the use of DOCSIS 3.0 technology enables cable providers to offer robust broadband and voice services as well as traditional and two-way video services. Cable currently employs these technologies in its fiber rich network. Cable expects to connect its markets to the TDS Telecom multi-gigabyte network to leverage existing TDS Telecom internet connectivity, voice services, and support systems enhancing reliability and redundancy aimed at building greater credibility as a service provider.

Cable Competition

Cable seeks to be the leading provider of video and broadband services in its targeted markets. In these markets, video competition is primarily satellite providers, and telephone companies that offer video services and compete for broadband and voice customers. From a broadband perspective, Cable will compete against the incumbent local telephone providers, who primarily offer DSL-based services. Cable offers a superior, higher bandwidth data product using its DOCSIS technology. Other telecommunications providers, including Internet-based VoIP providers and wireless providers may compete directly for both residential and commercial voice and data service customers. Since cable systems are operated under non-exclusive franchises, competing cable systems may be built in the same area. Cable intends to avoid markets served by such over-builders or municipalities which have constructed their own cable systems or where other ILEC's provide robust video service offerings.

Cable Regulation

Cable owns certain cable television systems, which also provide high-speed internet and digital voice services.

Regulatory issues relating to internet and voice services are addressed above under "Wireline Regulation." The Internet regulatory issues described above are substantially the same for telephone and cable providers.

With respect to voice services, Cable provides such services only through VoIP, as opposed to traditional circuit-switched voice service. The FCC has asserted jurisdiction over interconnected VoIP services and has extended a number of the traditional federal telephone regulations described above, but certain regulations applicable to traditional common carrier voice services have not been extended to VoIP. In addition, VoIP services may not be subject to the same degree of state regulation as traditional voice services. Nevertheless, the FCC and/or state regulatory authorities could subject VoIP services to such other regulations in the future.

Federal Regulation

As a cable multiple systems operator ("MSO"), Cable is subject to regulation by the FCC, covering matters such as technical operations (e.g., signal leakage reporting), administrative requirements (e.g., system registration, maintenance of a public file), consumer protection (e.g., subscriber privacy, customer notice of certain changes in channel line-ups), access by people with disabilities (e.g., video-description requirements) and content (e.g., carriage of broadcast television stations, political advertising sales, and transmission of emergency alerts). These regulations include, among others, the requirement that cable systems carry qualifying commercial or non-commercial television broadcast stations that elect "must-carry" status. In addition, cable systems may not carry a commercial broadcast television station that elects "retransmission consent" status unless the station grants consent to the retransmission pursuant to a written agreement between the parties. Typically, these agreements, particularly agreements involving affiliates of the national broadcast networks, require the cable system to pay the originating station.

To the extent these regulations require Cable to devote capacity to "must-carry" stations, make payments for the right to carry "retransmission consent" stations, and/or expend resources complying with other regulatory requirements; these requirements affect the costs of operating cable systems. There are pending legislative proposals to alter some of these requirements, but Cable cannot predict what changes, if any, may be enacted or what effect such changes might have on Cable's revenues or expenses.

Federal copyright law grants cable operators a compulsory license, at royalties set by the federal government, allowing cable operators to retransmit the signals of television stations (assuming the necessary retransmission consents have been obtained). The Copyright Office and the U.S. Government Accountability Office both have issued reports examining proposals to eliminate the compulsory licenses, and legislative or regulatory changes to that effect may be proposed. Changes to the compulsory license royalties or the compulsory license system in general could affect the revenues and expenses of Cable's operations, but Cable cannot predict what changes, if any, may actually be proposed or enacted.

Federal law requires electric utilities and ILECs to provide cable companies with nondiscriminatory access to their poles, ducts, conduits and rights of way for use by cable companies in deploying their facilities. The rates at which such nondiscriminatory access must be provided are regulated and generally enable cable companies to attach to pole or occupy ducts, conduits and rights of way on an economic basis. The FCC revised its rate regulation in this area most recently in 2011, and its rules were upheld on appeal. An inability to attach to poles or occupy the ducts, conduits or rights of way of electric utilities and ILECs could impede Cable's ability to deploy facilities and provide services.

State/Local Regulation

The operation of cable systems requires the MSO to obtain franchises from state or local governmental authorities to occupy public rights of way with network facilities. These franchises typically are nonexclusive and limited in time (subject to renewal), contain various conditions and limitations, and provide for the payment of fees to the local authority, determined generally as a standard percentage of gross revenues. Additionally, these franchises often regulate the conditions of service and technical performance and contain various types of restrictions on transferability. Failure to comply with the terms and conditions of a franchise may give rise to rights of termination by the franchising authority.

HOSTED AND MANAGED SERVICES

TDS Telecom's hosted and managed services business ("HMS") was formed in 2010 to take advantage of the growing IT outsourcing marketplace and to leverage TDS Telecom's core competencies in network management, IT, customer service and reliability. TDS has made multiple strategic acquisitions to position itself in the fast-growing hosted and managed services industry. On January 1, 2014, all of the HMS acquisitions and their operations, including OneNeck IT Services Corporation, TEAM Technologies, LLC, VISI Incorporated, Vital Support Systems, LLC and MSN Communications, Inc., were consolidated under a single, unified brand, OneNeck IT Solutions. HMS provides cloud computing, colocation, hosted application management, hosted and managed services and planning, engineering, procurement, sales, installation, and management of IT infrastructure hardware solutions.

Through acquisition and organic growth, HMS has developed an operational platform that provides a foundation to deliver a full range of IT outsourcing solutions. HMS has organized its sales and professional services operations to leverage the trusted advisor relationships of its solutions provider acquisitions and offer the entire HMS product portfolio within regional geographies. HMS's hosted application management practice is national in scope creating an entry point into client accounts to sell a broad range of products and services.

HMS Products and Services

HMS provides IT equipment and solutions to meet its business customers' needs across several broad product categories: colocation, hosted and managed-services, cloud services and solutions provider services. HMS operates fault tolerant, continuously maintainable data center facilities. Value is provided to its customers through experienced teams that manage mission critical data centers, cloud, and customer infrastructure 24 hours per day 365 days per year. Statement on Standards for Attestation Engagements 16 ("SSAE 16") reports, which describe the controls in place at HMS's facilities, provide assurances to customers that their data are secure, available, and meet processing integrity, confidentiality and privacy requirements. Data centers are the foundation for outsourced IT services, which include hosted and managed-services, and cloud services.

HMS's portfolio of hosted and managed services covers servers, voice and data networks, Microsoft Exchange environments, storage, and service desk capabilities on equipment located both within HMS data centers and at customer locations. HMS also has significant expertise in Hosted Application Management, particularly enterprise resource planning ("ERP") systems from vendors such as Oracle, Microsoft and Infor. These systems can be hosted in HMS data centers, on customer premise or on top of the HMS cloud computing infrastructure.

HMS's cloud services offering, branded ReliaCloud, is an Infrastructure as a Service solution designed to run traditional business applications in a secure and compliant operational framework within a cloud environment. ReliaCloud is a complete, enterprise-class cloud solution that handles scalability and high performance data management for use in public, private, and hybrid cloud configurations. The compliant-capable cloud solution is designed for resource intense applications and databases that require a secure operational framework, while enabling customers to meet regulatory compliance requirements.

HMS's solutions provider services include planning, engineering, procurement, sales, installation, and management of IT infrastructure solutions from world-class Original Equipment Manufacturers ("OEMs"). The breadth and depth of technical certifications held by team members have allowed HMS to achieve the highest levels of partner status with Cisco Systems, Hewlett-Packard Company, EMC, VMware and Microsoft.

HMS Strategy

The goal of HMS is to create, deliver and support a platform of IT products and services tailored for mid-sized business customers. These businesses typically are not mature outsourcers of their IT management and represent a relatively untapped market seeking a superior provider relationship with outcome based pricing. By combining a solutions provider's status as trusted IT advisor with data center assets and an expansive product set, HMS intends to build a growing relationship between the provider and customer. Furthermore, cloud computing presents an opportunity for growth as it is a transformational tool that is changing the way businesses buy computing power and IT services. HMS is positioning itself to grow by building sophisticated sales teams, strong customer service delivery, extensive engineering talent, and deep ties to vendors to partner with customers to reduce their risk profiles and create cost savings.

A highly sophisticated sales force is critical to success in the hosted and managed services marketplace. With the complexity of the sales process and the high level interactions necessary to win customer orders, highly sophisticated account executives, sales engineers and support staff are needed to gain the trust of customers looking to outsource IT functions. HMS continues to enhance its sales capabilities to be able to deliver products and services in all HMS product categories in all of its markets. HMS has established a support organization capable of meeting mid-market customer demands for enhanced product offerings. HMS has put in place an integrated, scalable, service delivery platform intended to exceed the quality commitments made to customers.

HMS Customers

HMS's customers span multiple industries including healthcare, financial, manufacturing, retail, and government and are located across the United States. Regional presences encompass states in the Upper Midwest and Great Plains and states in the Rocky Mountains and Southwest, and are key to establishing the locally-known trusted advisor brands middle market companies recognize. HMS primarily targets middle market companies that are between 200 and 2,000 employees in size.

HMS Competition

The IT services market is large and complex, with a diverse array of segments in which performance and market dynamics vary considerably. As a result of these dynamics the IT services market is a highly competitive environment. Market competitors include large diversified telecommunications and technology companies that primarily target Fortune 500 sized companies as well as smaller independent companies that provide selective fixed services for mid-sized business customers. HMS has positioned itself to not compete head-to-head with these providers, rather seeks to fill the gap between large business process outsourcers and fragmented IT service providers. However, new entrants may emerge and grow rapidly creating additional sources of competition.

HMS Regulation

HMS is subject to varying degrees of regulation in each of the jurisdictions in which it operates. Federal, state and local laws and regulations, and their interpretation and enforcement may be applicable and may differ significantly among those jurisdictions. These regulations and laws may cover taxation, privacy, data protection, copyrights and other intellectual property, electronic communications and regulations applicable to electronic products and services. Many of these laws were adopted with respect to business matters other than and prior to the development of hosted and managed services and related technologies and, as a result, do not contemplate or address the unique issues that such services and technologies produce. Some of the laws that do reference such services and technologies have been and continue to be interpreted by the courts, but their applicability and scope remain uncertain in many respects. In addition, future regulatory, judicial, and legislative changes may restrict or otherwise have an adverse effect on our ability to deliver services within various jurisdictions. Increased regulation in the area of data privacy and protection is expected, and laws and regulations applying to the solicitation, collection, processing, protection or use of information could restrict the ability to use and share data, or inhibit customers from using hosted and managed services. These regulations may involve significant compliance costs, require changes in business practices or have adverse consequences on the HMS business, financial condition or results of operation in the event of noncompliance. At the present time, TDS Telecom believes it is in material compliance with these requirements.

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TDS—Other Items

Employees

TDS had approximately 10,500 full-time and part-time employees as of December 31, 2013, less than 1% of whom were represented by labor organizations. TDS considers its relationship with its employees to be good.

Item 1A. Risk Factors

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995
SAFE HARBOR CAUTIONARY STATEMENT

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

RISK FACTORS

1) Intense competition in the markets in which TDS operates could adversely affect TDS' revenues or increase its costs to compete.

Competition in the telecommunications industry is currently intense and could intensify further in the future due to the general effects of the economy, as well as due to multiple wireless industry factors such as increasing market penetration, decreasing customer churn rates, introduction of new products, new competitors and changing prices. There is competition in handsets and other devices; network quality, coverage, speed and technologies; distribution; pricing; and other categories. TDS' ability to compete effectively will depend, in part, on its ability to anticipate and respond to various competitive factors affecting the telecommunications industry. TDS anticipates that, in the future, competition may cause the prices for products and services to continue to decline and the costs to compete to increase. Most of TDS' competitors are national or global telecommunications companies that are larger than TDS, possess greater resources, possess more extensive coverage areas and more spectrum within their coverage areas, and market other services with their communications services that TDS does not offer. In addition, TDS may face competition from technologies that may be introduced in the future or from new entrants into the industry. New technologies, services and products that are more commercially effective than the technologies, services and products offered by TDS may be developed. Further, new technologies may be proprietary such that TDS is not able to adopt such technologies. There can be no assurance that TDS will be able to compete successfully in this environment.

Sources of competition to TDS' wireless business typically include three to five competing wireless telecommunications service providers in each market, wireline telecommunications service providers, cable companies, resellers (including mobile virtual network operators), and providers of other alternate telecommunications services. Many of TDS' wireless competitors and other competitors have substantially greater financial, technical, marketing, sales, purchasing and distribution resources than TDS.

TDS' competitors offer a wide array of wireless service offerings and wireless devices. There is increasing complexity associated with these wireless product and service offerings and the related pricing. Further, new wireless services and products and pricing structures are frequently introduced. Multiple events related to new services, products and pricing offered by TDS' competitors occurring simultaneously or in close proximity may impact TDS' ability to respond to such events and compete effectively.

Sources of competition to TDS' Wireline business include, but are not limited to, resellers of local exchange services, interexchange carriers, Regional Bell Operating Companies ("RBOCs"), satellite transmission service providers, wireless communications providers, cable companies, competitive access service providers, competitive local exchange carriers, VoIP providers and providers using other emerging technologies. The Wireline CLEC business sources of competition include the sources identified above as well as the ILEC in each market, which enjoys competitive advantages, including its wireline connection to virtually all of the customers and potential customers of Wireline's CLEC business, its established brand name and its substantial financial resources. Wireline's CLEC business is typically required to discount services to win potential customers. In the future, TDS expects the number of its physical access lines served to continue to be adversely affected by wireless and broadband substitution and by cable company competition.

Some of the specific risks presented by certain Wireline competitors include:

- Cable companies – continued deployment of technologies such as DOCSIS 3.0 that substantially increase data transfer speeds, and offering these speeds to customers at relatively low rates, including speed upgrades for no additional charge.
- Wireless – the trend of customers "substituting" their wireline connection for a wireless device.
- RBOCs – continue to be formidable competitors given their full suite of services, experience and strong financial resources.
- VoIP providers – are able to offer voice service at a very low price point.

TDS' Cable business also provides high-speed internet and digital voice services, as well as cable television service. With respect to internet and voice services, Cable's business faces sources of competition similar to the wireline business. With respect to cable television service, cable operators compete against broadcast television, direct broadcast satellite providers, on-line video services and may compete against wireline providers which have begun to upgrade their networks to provide video services in addition to voice and high-speed internet access services. As a result, the cable business is highly competitive.

Sources of competition of HMS's business primarily include large diversified telecommunications and technology companies, as well as smaller independent companies that focus on mid-market companies. In addition, new entrants may emerge and grow rapidly creating additional sources of competition or companies may begin insourcing IT services. The IT services market is large and complex, with a diverse array of segments in which performance and market dynamics vary considerably. As a result of these dynamics the IT services market is a highly competitive environment.

If TDS does not adapt to compete effectively in such a highly competitive environment, such competitive factors could result in product, service, pricing or cost disadvantages and could have an adverse effect on TDS' business, financial condition or results of operations.

2) A failure by TDS to successfully execute its business strategy (including planned acquisitions, divestitures and exchanges) or allocate resources or capital could have an adverse effect on TDS' business, financial condition or results of operations.

U.S. Cellular is a regional wireless carrier that operates on a customer satisfaction strategy, seeking to meet customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network. U.S. Cellular seeks to operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular relies on roaming agreements with other carriers to provide roaming capability to its customers in areas of the U.S. outside its service areas and to improve coverage within selected areas of U.S. Cellular's network footprint. U.S. Cellular pursues a product and technology strategy which requires it to recognize product and technology advances and quickly adopt and execute rollouts of such advances. This strategy requires U.S. Cellular to make timely and effective strategic decisions related to technological advances and related products and services, and which of these technological advances to adopt and roll out to its customers.

Further, U.S. Cellular's strategic decisions related to the adoption of new technologies are ultimately impacted by such factors as consumer preferences for technologies and the related services and products, and original equipment manufacturer ("OEM") and standard bodies support of such technologies, including Long-Term Evolution ("LTE") and Voice over LTE ("VoLTE"), among other factors. If U.S. Cellular's competitors adopt new technologies faster than U.S. Cellular, then consumers who are eager to adopt new technologies more quickly may select U.S. Cellular's competitors rather than U.S. Cellular as their service provider. These customers who are early adopters of new technologies are often customers who generate higher average revenue per unit ("ARPU"), and to the extent that U.S. Cellular does not attract these types of customers, U.S. Cellular could be at a competitive disadvantage and have a customer base that generates lower overall ARPU relative to its competition.

Wireline's business seeks to be the preferred telecommunications solutions provider in its chosen markets for 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. Wireline's residential customer strategy is to provide voice, high-speed data, and video services through value-added bundling of products. The commercial focus is to provide advanced IP-based voice and data services, as well as information technology solutions. Wireline is actively investing in the continuing transformation of its networks as it works to deploy advanced technologies and new services. Wireline seeks to capitalize on its strong local presence and strives to champion economic development in its communities by actively advocating with respect to state and federal regulatory frameworks that would enable its operations to grow profitably and continue to meet customer expectations for new and improved services.

Cable's business provides high-speed internet, digital voice services and television services. Although similar to Wireline, the strategies for Cable involve different technical, regulatory, business and other factors and TDS has limited experience in operating cable companies. In particular, Cable's business has significant costs and risks relating to programming and retransmission. Such costs have been increasing and Cable's business may not be able to fully pass these costs onto customers. In addition, Cable's business is limited in its ability to obtain programming at favorable costs and terms due to its small scale. Also, Cable's business may be affected by a wide range of regulatory or other issues, including matters pertaining to set-top boxes, equipment connectivity, content regulation, closed captioning, pole attachments, privacy, copyright, technical standards, and municipal entry into video and broadband. Cable's business development strategy also includes evaluating opportunities for possible further acquisitions of desirable cable companies on attractive terms to increase the scale of Cable's business. There can be no assurance that TDS will be successful in its Cable business strategy.

HMS's business development strategy is to increase its presence in the IT infrastructure and application outsourcing and solution provider market through organic growth, expansion or acquisition. HMS's service platform with coverage across all of its product categories provides the potential for expansion of current products and services to additional markets in or near HMS's current footprint. HMS may continue to make opportunistic acquisitions of companies that further strengthen its operating market areas and enter additional attractive markets.

The successful execution of strategies, the optimal allocation within TDS' portfolio of assets and optimal capital allocation decisions depend on various internal and external factors, many of which are not in TDS' control. TDS' ability to implement and execute its business strategies and optimally allocate its assets and capital and, as a result, achieve desired financial results, could be affected by such factors. Such factors include pricing practices by competitors, relative scale, purchasing power, roaming and other strategic agreements, wireless device availability, timing of introduction of wireless devices and other factors. In addition, there is no assurance that U.S. Cellular's or TDS Telecom's strategies will be successful. Even if TDS executes its business strategies as intended, such strategies may not be successful in the long term to profitably sustain growth in revenues or otherwise.

A failure by TDS to execute its business strategies successfully or to allocate resources or capital optimally could have an adverse effect on TDS' businesses, financial condition or results of operations.

3) A failure by TDS' service offerings to meet customer expectations could limit TDS' ability to attract and retain customers and could have an adverse effect on TDS' business, financial condition or results of operations.

Customer acceptance of the telecommunications and IT services that TDS offers is and will continue to be affected by technology and the range of device and service-based differences from competition and by the operational performance, quality, reliability, and coverage of TDS' networks. TDS may have difficulty attracting and retaining customers if it is unable to meet customer expectations for a range of services, such as wireless device selection by U.S. Cellular and easy access to a broad variety of applications, or if it is otherwise unable to resolve quality issues relating to its networks, billing systems, or customer care. Any of these issues may limit TDS' ability to expand its network capacity or customer base, or otherwise place TDS at a competitive disadvantage to other service providers in its markets. The levels of customer demand for any TDS next-generation services and products are uncertain. Customer demand could be impacted by differences in the types of services offered, service content, technology, footprint and service areas, network quality, customer perceptions, customer care levels and rate plans.

In the third quarter of 2013, U.S. Cellular migrated most of its customers to a new Billing and Operational Support System ("B/OSS") which includes a new point-of-sale system and consolidates billing on one platform. This conversion resulted in billing delays. In addition, intermittent system outages and delayed system response times negatively impacted customer service and sales operations at certain times. Continuing operational problems associated with the conversion to the new billing system could have adverse effects on TDS' business (in areas such as overall customer satisfaction, customer attrition, uncollectible accounts receivable, gross customer additions, or operating expenses), financial condition or results of operations.

4) TDS' system infrastructure may not be capable of supporting changes in technologies and services expected by customers, which could result in lost customers and revenues.

The telecommunications industry and IT services industry are experiencing significant changes in technologies and services expected by customers. Future technological changes or advancements may enable other technologies to equal or exceed TDS' current levels of service and render its system infrastructure obsolete. New technologies or services often render existing technology products, services or infrastructure obsolete, too costly or otherwise unmarketable. TDS' system infrastructure may not be able to accommodate new product features and functionality, new reporting requirements, new capacity requirements or deployment of complex next generation services. If TDS is unable to meet future advances in or changes in competing technologies on a timely basis, or at an acceptable cost, it may not be able to compete effectively with other carriers, which could result in lost customers and revenues. This could have an adverse effect on TDS' business, financial condition or results of operations.

5) Changes in roaming practices or other factors could cause TDS' roaming revenues to decline from current levels and/or impact TDS' ability to service its customers in geographic areas where TDS does not have its own network, which would have an adverse effect on TDS' business, financial condition or results of operations.

TDS' revenues include roaming revenues related to the use of TDS' network by other wireless carriers' customers who travel within TDS' coverage areas. Changes in the network footprints of carriers due to mergers, acquisitions or network expansions could have an adverse effect on TDS' roaming revenues. For example, consolidation among other carriers which have network footprints that currently overlap TDS' network could decrease the amount of roaming revenues for TDS.

Similarly, TDS' wireless customers can access another carrier's digital system automatically only if the other carrier allows TDS' customers to roam on its network. TDS relies on roaming agreements with other carriers to provide roaming capability to its customers in areas of the U.S., Mexico and Canada outside of its service areas and to improve coverage within selected areas of TDS' network footprint. Such agreements cover traditional voice services as well as data services. Although TDS currently has long-term roaming agreements with certain other carriers, these agreements generally are subject to renewal and termination if certain events occur. FCC rules and orders impose certain requirements on wireless carriers to offer certain roaming arrangements to other carriers. However, carriers frequently disagree on what is required. At this time, there is no assurance that TDS will be able to enter into agreements to provide roaming services using 4G LTE or other technologies or that it will be able to do so on reasonable or cost effective terms.

Some competitors may be able to obtain lower roaming rates than TDS is able to obtain because they have larger call volumes or may be able to reduce roaming charges by providing service principally over their own networks. In addition, the quality of service that a wireless carrier delivers during a roaming call may be inferior to the quality of service TDS provides, the price of a roaming call may not be competitive with prices of other wireless carriers for such call, and TDS' customers may not be able to use some of the advanced features, such as voicemail notification or data applications, that TDS customers enjoy when making calls on TDS' network. TDS' rate of adoption of new technologies, such as those enabling high-speed data services, could affect its ability to enter into or maintain roaming agreements with other carriers. In addition, TDS' wireless technology may not be compatible with technologies used by other carriers, which may limit the ability of TDS to enter into voice or data roaming agreements with such other carriers. TDS' roaming partners could switch their business to new operators or, over time, to their own networks. Changes in roaming usage patterns, rates for roaming minutes or data usage or relationships with carriers whose customers generate roaming minutes or data use on TDS' network could have an adverse effect on TDS' revenues and revenue growth.

To the extent that TDS' key roaming partners expand their networks in TDS' service areas, the roaming arrangements between TDS and these key roaming partners could become less strategic to such key roaming partners. That is, these key roaming partners will have fewer or less extensive geographic areas where roaming services are required by their customers and, as a result, the roaming arrangements could become less critical to serving their customer base. This presents a risk to TDS in that, to the extent TDS is not able to enter into economically viable roaming arrangements with key roaming partners, this could impact TDS' ability to service its customers in geographic areas where TDS does not have its own network.

If TDS' roaming revenues decline, or if TDS is unable to obtain or maintain roaming agreements with other wireless carriers that contain pricing and other terms that are competitive and acceptable to TDS, and that satisfy TDS' quality and interoperability requirements, its business, financial condition or results of operations could be adversely affected.

6) A failure by TDS to obtain access to adequate radio spectrum to meet current or anticipated future needs and/or to accurately predict future needs for radio spectrum could have an adverse effect on TDS' business, financial condition or results of operations.

TDS' wireless business depends on the ability to use portions of the radio spectrum licensed by the FCC. TDS could fail to obtain access to sufficient spectrum capacity in new or existing critical markets, whether through FCC auctions or other transactions, in order to meet the anticipated spectrum requirements associated with increased demand for existing services, especially increases in customer demand for data services, and to enable deployment of next-generation services. TDS believes that this increased demand for data services reflects a trend that will continue for the foreseeable future; as such, TDS could fail to accurately forecast its future spectrum requirements considering changes in customer usage patterns, technology requirements and the expanded demands of new services. Such a failure could have an adverse impact on the quality of TDS' services or TDS' ability to roll out such future services in some markets, or could require that TDS curtail existing services in order to make spectrum available for next-generation services. S pectrum constrained providers could be effectively capped in increasing market share. As spectrum constrained providers gain customers, they use up their network capacity. Since they lack spectrum, they can respond to demand only by adding cell sites, which is capital intensive, limited by zoning considerations, and ultimately may not be cost effective. TDS may acquire access to spectrum through a number of alternatives, including participation in spectrum auctions, partnering on a non-controlling basis with other auction applicants ("Other Applicants") and other acquisitions and exchanges. As required by law, the FCC has conducted auctions for licenses to use some parts of the radio spectrum. The decision to conduct auctions, and the determination of what spectrum frequencies will be made available for auction and the determination of geographic size of licenses, are made by the FCC pursuant to laws that they administer. The FCC may not be able to allocate spectrum sufficient to meet the demands of all those wishing to obtain licenses for new market entry or to expand their spectrum holdings to meet the expanding demand for data services or to address other spectrum constraints . Due to factors such as geographic size of licenses and auction bidders that may raise prices beyond acceptable levels, TDS or Other Applicants may not be successful in FCC auctions in obtaining the spectrum that either believes is necessary to implement its business and technology strategies. In addition, newly auctioned spectrum may not be compatible with existing spectrum, and vendors may not create suitable products to use such spectrum. Further, access to use spectrum won in FCC auctions may not be available on a timely basis. Such access is dependent upon the FCC actually granting licenses won in the various auctions, which can be delayed for various reasons, including the possible need for the FCC to transition current users of spectrum to other portions of the radio spectrum. TDS also may seek to acquire radio spectrum through purchases and exchanges with other spectrum licensees. However, TDS may not be able to acquire sufficient spectrum through these types of transactions, and TDS may not be able to complete any of these transactions on favorable terms.

7) To the extent conducted by the Federal Communications Commission ("FCC"), TDS is likely to participate in FCC auctions of additional spectrum in the future as an applicant or as a noncontrolling partner in another auction applicant and, during certain periods, will be subject to the FCC's anti-collusion rules, which could have an adverse effect on TDS.

From time to time, the FCC conducts auctions through which additional spectrum is made available for the provision of wireless services. TDS has participated in such auctions in the past and is likely to participate in other auctions conducted by the FCC in the future as an applicant or as a non-controlling partner in another auction applicant. FCC anti-collusion rules place certain restrictions on business communications and disclosures by participants in an FCC auction. These anti-collusion rules may restrict the normal conduct of TDS' business and/or disclosures by TDS relating to an FCC auction, which could last three to six months or more. The restrictions could have an adverse effect on TDS' business, financial condition or results of operations.

8) Changes in the regulatory environment or a failure by TDS to timely or fully comply with any applicable regulatory requirements could adversely affect TDS' business, financial condition or results of operations.

TDS' operations are subject to varying degrees of regulation by the FCC, state public utility commissions and other federal, state and local regulatory agencies and legislative bodies. Adverse decisions or increased regulation by these regulatory bodies could negatively impact TDS' operations by, among other things, increasing TDS' costs of doing business, permitting greater competition or limiting TDS' ability to engage in certain sales or marketing activities. New regulatory mandates or enforcement may require unexpected or changed capital investment, lost revenues, changes in operations or other changes.

TDS' wireless business requires licenses granted by the FCC to provide wireless telecommunications services. Typically, such licenses are issued for an initial ten-year term and may be renewed for additional ten-year terms, subject to FCC approval of the renewal applications. Failure to comply with FCC requirements in a given service area could result in the revocation of TDS' license for that area or in the imposition of fines. Court decisions and rulemakings could have a substantial impact on TDS' wireless operations, including rulemakings on intercarrier access compensation and universal service. Litigation and different objectives among federal and state regulators could create uncertainty and delay TDS' ability to respond to new regulations. TDS is unable to predict the future actions of the various regulatory bodies that govern TDS, but such actions could have adverse effects on TDS' wireless business.

TDS' Wireline operations are subject to varying degrees of regulation by the FCC, state public utility commissions and other federal, state and local regulatory agencies and legislative bodies. Adverse decisions or increased regulation by these regulatory bodies could negatively impact TDS' operations by, among other things, increasing TDS' costs of doing business, permitting greater competition or limiting TDS' ability to engage in certain sales or marketing activities. TDS is unable to predict the future actions of the various regulatory bodies that govern TDS, but such actions could have adverse effects on TDS' Wireline business.

TDS' ILECs have been granted permission to operate by each of the states in which they operate. TDS is subject to regulation from the regulatory commissions in each of these states as well as from the FCC. State regulatory commissions have primary jurisdiction over local and intrastate rates that TDS charges customers, including, without limitation, other telecommunications companies, and service quality standards. The FCC has primary jurisdiction over the interstate access rates that TDS charges other telecommunications companies that use TDS' network and other issues related to interstate service. TDS receives a substantial amount of its ILEC revenues from interexchange carriers for providing access to its network and from compensation from the USF and other support funds. Future revenues, costs, and capital investment in TDS' Wireline business could be adversely affected by material changes to these regulations including but not limited to changes in intercarrier compensation, state and federal universal service support, and the treatment of VoIP traffic.

Although TDS' CLECs are not subject to regulatory review in the same way as the ILECs, the viability of their business model depends on FCC and state regulations. Court decisions and regulatory developments relating to unbundled network elements ("UNEs") and access and transport options could negatively affect the CLEC's ability to obtain access to certain local networks or to provide broadband services to end users and/or could increase the CLEC's cost of providing some services. As a result of certain court decisions and regulatory developments, TDS has phased-out most of its CLEC operations that relied on an unbundled network element-platform provided by incumbent carriers. Moreover, the further loss of some access and transport options as a result of future developments would be unfavorable for TDS' CLEC operations and could negatively affect their ability to provide broadband services to end users.

In March 2010, the FCC released its National Broadband Plan (the "Plan") which describes the FCC's goals for enhancing broadband availability and the methods for achieving those goals over the next decade. The FCC notes that about one-half of the Plan will be addressed by the FCC, while the remainder would be addressed by Congress, the Executive Branch and state and local governments working closely with private and non-profit sectors. TDS cannot predict the outcome of these deliberations or what effects any final rules, regulations or laws may have on its ability to compete in the provision of wireline and wireless broadband services to its customer base. Changes in regulation or the amount or distribution of USF funds to U.S. Cellular, TDS Telecom and other telecommunications service providers could impact competition in certain of U.S. Cellular's and TDS Telecom's service areas, and could have an adverse effect on TDS' business, financial condition or results of operations.

In 2009, the FCC initiated a rulemaking proceeding designed to codify its existing "Net Neutrality" principles and impose new requirements that could have the effect of restricting the ability of internet service providers to manage applications and content that traverse their networks. In December 2010, after a lengthy proceeding, which considered different approaches, including the "reclassification" of internet access as "common carrier" service under Title II of the Communications Act, the FCC adopted a net neutrality rule based on its Title I "ancillary" authority to enforce different parts of the Communications Act, which rule is now in effect. The rule requires all providers of broadband internet access, including both fixed (that is, telephone and cable) and wireless providers, to publicly disclose accurate information regarding their network management practices, performance and commercial terms sufficient for consumers to make informed choices regarding the use of such services. The rule also prohibits all internet providers from blocking consumers' access to lawful websites, subject to reasonable network management, and from blocking applications that compete with the provider's voice or video telephony services, also subject to reasonable network management. The rule subjects the providers of fixed but not wireless broadband internet access to a prohibition on "unreasonable discrimination" in transmitting internet traffic over their networks, also subject to reasonable network management. The exemption of wireless providers from this part of the rule reflects a recognition of the capacity constraints and other "special conditions" under which mobile broadband service is offered and the competitive nature of evolving wireless networks. Thus, the FCC considered it appropriate in 2009 to take only the "measured steps" with respect to mobile broadband service reflected in the rule. The order is controversial and has been challenged in the courts. On January 14, 2014, a three judge panel of the US Court of Appeals for the District of Columbia Circuit vacated the "anti-blocking" and "anti-discrimination" portions of the FCC's net neutrality rules, leaving in place the disclosure requirements of the rules. In a public statement made on February 19, 2014, the Chairman of the FCC indicated that the agency does not plan to appeal the Court's decision, but will consider ways to achieve its policy goals with respect to the "anti-blocking" and "anti-discrimination" provisions within the authority allowed by the Court's decision, in particular authority granted under Section 706 of the Telecommunications Act of 1996. The Chairman proposed a new rulemaking proceeding to advance that process with a Notice of Proposed Rulemaking anticipated later this year. TDS cannot predict the outcome of this proceeding.

TDS' Cable business also provides high-speed internet and digital voice services, as well as cable television service. Regulatory risks relating to the Internet are substantially the same for cable and wireline telephone companies. With respect to voice services, Cable's business provides such services only through VoIP as opposed to traditional circuit-switched voice service. Although VoIP services may not be subject to the same degree of FCC or state regulation as traditional circuit-switched voice services, there is no assurance that the FCC and/or state regulatory authorities will not determine to subject VoIP services to a greater degree of regulations in the future. With respect to cable television service, Cable's business is also subject to regulation by the FCC as a cable multiple systems operator ("MSO"). In addition, the operation of cable systems requires the MSO to obtain franchises from state or local governmental authorities to occupy public rights of way with network facilities. These franchises typically are nonexclusive and limited in time (subject to renewal), contain various conditions and limitations, and provide for the payment of fees to the local authority. Additionally, these franchises often regulate the conditions of service and technical performance and contain various types of restrictions on transferability. Failure to comply with the terms and conditions of a franchise may give rise to rights of termination by the franchising authority.

HMS is subject to varying degrees of regulation in each of the jurisdictions in which it operates. Federal, state, and local laws and regulations and their interpretation and enforcement may be applicable and may differ significantly among those jurisdictions. These regulations and laws may cover taxation, privacy, data protection, copyrights and other intellectual property, electronic communications and regulations applicable to electronic products and services. These laws can be costly to comply with, can be a significant diversion to management's time and effort, and can subject TDS to claims or other remedies, as well as negative publicity. Many of these laws were adopted prior to technological developments in the IT services industry and, as a result, do not contemplate or address the unique issues that such industry and related technologies produce. Some of the laws that do reference such industry and related technologies have been and continue to be interpreted by the courts, but their applicability and scope remain largely uncertain.

TDS' operations are subject to various federal, state and local environmental and health and safety laws and regulations, including those relating to the generation, storage, handling and disposal of hazardous substances and wastes. TDS' operations involve the use of materials such as petroleum fuel for emergency generators, as well as batteries, cleaning solutions and other materials. Unexpected events, equipment malfunctions and human error, among other factors, can lead to violations of environmental laws, regulations or permits. To the extent that TDS may be responsible under applicable laws, regulations or leases for the removal or cleanup of hazardous substances or wastes from properties that it owns or leases, the cost of such removal or cleanup activities could be substantial.

Fluctuations in the price of power can increase the cost of energy used by TDS' businesses. Federal legislative proposals have been considered that would, if adopted, implement various forms of regulation or taxation to reduce or mitigate greenhouse gas emissions. Some states have also considered or adopted laws intended to limit fuel consumption and/or encourage the use of renewable energy for the same purpose. Regulation of greenhouse gas emissions could increase the costs of electricity or petroleum, and these cost increases could consequently increase TDS' costs for electricity or emergency generator fuels. TDS could be directly subject to taxes, fees or costs, or could indirectly be required to reimburse electricity providers for such costs as a result of such regulation. The impacts of climate change could increase costs of operation due to, for example, higher maintenance and repair costs due to extreme weather events or an increase in energy use in order to maintain the temperature of equipment used in TDS' operations.

In addition, new or amended regulatory requirements could increase TDS' costs and divert resources from other initiatives.

TDS attempts to timely and fully comply with all regulatory requirements. However, in certain circumstances, TDS may not be able to timely or fully comply with all regulatory requirements due to various factors, including changes to regulatory requirements, limitations in or availability of technology, insufficient time provided for compliance, problems encountered in attempting to comply or other factors. Any failure by TDS to timely or fully comply with any regulatory requirements could adversely affect TDS' financial condition, results of operations or ability to do business.

9) Changes in Universal Service Fund ("USF") funding and/or intercarrier compensation could have an adverse impact on TDS' business, financial condition or results of operations.

USF and ICC Reform Order . On November 18, 2011, pursuant to the Plan and subsequent notices of proposed rulemaking, the FCC released a Report and Order and Further Notice of Proposed Rulemaking ("Reform Order") adopting reforms of its universal service and intercarrier compensation mechanisms, and proposing further rules to advance reform. The Reform Order substantially revised the USF high cost program and intercarrier compensation regime. The current USF program, which supports voice services, began to be phased out in 2012. As a replacement, the FCC is adopting the Connect America Fund ("CAF"), a new Mobility Fund, and a Remote Area Fund, which will collectively support broadband-capable networks. Mobile wireless carriers such as TDS are eligible to receive funds in both the CAF and the Mobility Fund, although some areas that TDS currently serves may be declared ineligible for support if they are already served, or are subject to certain rights of first refusal by incumbent carriers.

The FCC has determined that both wireline and wireless facilities should be supported, with one wireline carrier and one mobile carrier receiving support in each area.

For wireline rate of return carriers such as TDS Telecom's Wireline operations, the Reform Order establishes a $2 billion fund that is intended to maintain existing levels of support in the aggregate while at the same time transitioning support mechanisms so that, over time, rate of return carriers receive support for the deployment of wireline broadband facilities principally through the CAF rather than through the intercarrier compensation regime. To effectuate the first phase of this effort, the Reform Order established benchmarks that limit certain reimbursable capital and operating expenses for determining High Cost Loop Support; reduces High Cost Loop Support on a dollar-for-dollar basis where a carrier's local rates are set below a specified urban local rate floor; phases out safety net additive support; eliminates local switching support; eliminates support for service areas that overlap with the service areas of others; and imposes a $250 absolute cap on per line support. Although the Reform Order is intended to permit rate of return carriers to recover any lost support through the explicit support mechanism in the CAF, it remains unclear whether the CAF will provide TDS Telecom with the same level of support over time that TDS Telecom receives today.

The Mobility Fund will be implemented in two phases. The Phase I Mobility Fund which was implemented in 2012 is designed to provide one-time funding through a reverse auction to fill in coverage in "dead zones" that currently lack 3G wireless service. In Phase I, $300 million was allocated throughout the country and an additional $50 million was set aside for tribal lands. The Phase II Mobility Fund will have a budget of up to $500 million per year (up to $100 million of which is reserved for tribal lands), with the method of disbursement to be determined in a further NPRM. Phase II funding will be provided to areas that lack "4G" wireless service. The CAF will support service to homes, businesses, and anchor institutions, using any technology that can meet the technical requirements.

The terms and rules for participating in the CAF for wireless ETCs have not been developed yet by the FCC. It is uncertain whether TDS will obtain support through the CAF or Phase II of the Mobility Fund. If TDS is successful in obtaining support, it will be required to meet certain regulatory conditions to obtain and retain the right to receive support including, for example, allowing other carriers to colocate on TDS' towers, allowing voice and data roaming on U.S. Cellular's network, and submitting various reports and certifications to retain eligibility each year. It is possible that additional regulatory requirements will be imposed pursuant to the FCC's Reform Order.

TDS' current ETC support is being phased down at the rate of 20% per year beginning July 1, 2012. If the Phase II Mobility Fund is not operational by July 2014, the phase down will halt at that time and TDS will continue to receive 60% of its baseline support until the Phase II Mobility Fund is operational.

With respect to intercarrier compensation, the Reform Order provides for a reduction in the charges that TDS pays to wireline phone companies to transport and terminate calls that originate on TDS' network, which will reduce TDS' operating expenses. However, TDS also receives revenue from other carriers to transport and terminate calls that originate on those carriers' networks. As a general matter, the amount and timeframe for these reductions will depend on the nature of the traffic at issue. In some cases, such as with the exchange of traffic between wireline and wireless providers, the reduction is scheduled to occur quickly, whereas in other cases, such as with the exchange of traffic between wireline rate of return carriers, the reduction is scheduled to occur over a period of time. The fundamental goal of the Reform Order is to, over time, transition all intercarrier compensation to a default "bill and keep" arrangement so that, in the absence of some commercial arrangement, support for the deployment of broadband services is based solely on funds received from the CAF. As reductions in intercarrier charges are to increase over the next five to ten years, TDS' related revenues and operating expenses are expected to decline. The Reform Order was accompanied by a Further Notice of Proposed Rulemaking seeking comment on a range of additional proposals. Any future rulemaking that results from these proposals could be important to TDS Telecom, as a number of the proposals are relevant to rate of return carriers, such as TDS Telecom.

The FCC's Reform Order, and any subsequent orders it adopts to reform universal service and intercarrier compensation, are subject to judicial review. Multiple appeals of the Reform Order were consolidated and argued in the U.S. Court of Appeals for the 10 th Circuit on November 19, 2013, with a decision anticipated in 2014. At this time, TDS cannot predict the timing or outcome of any such decision, or whether such decision or any future rulemaking, reconsideration and legal challenges would result in a material adverse effect on TDS' business, financial condition or results of operations.

TDS also cannot predict the net effect of the FCC's changes to the USF high cost support program in the Reform Order or whether reductions in support will be fully offset with additional support from the CAF or the Mobility Fund. Accordingly, TDS cannot predict whether such changes will have a material adverse effect on TDS' business, financial condition or results of operations.

10) An inability to attract and/or retain highly competent management, technical, sales and other personnel could have an adverse effect on TDS' business, financial condition or results of operations.

TDS' businesses are highly technical and competition for skilled talent in the telecommunications and IT services industries is aggressive. Due to competition for qualified management, technical, sales and other personnel, there can be no assurance that TDS will be able to continue to attract and/or retain qualified personnel necessary for the development of its business. The loss of the services of existing key personnel as well as the failure to recruit additional qualified personnel in a timely manner could have an adverse effect on TDS' business, financial condition or results of operations.

11) TDS' assets are concentrated primarily in the U.S. telecommunications industry. As a result, its results of operations may fluctuate based on factors related primarily to conditions in this industry.

TDS' assets are concentrated primarily in the U.S. telecommunications industry and the United States. The U.S. telecommunications industry is facing significant change and an uncertain operating environment. Although TDS has diversified into HMS and the cable businesses, TDS' revenue streams continue to be substantially comprised of its two principal businesses, wireless and wireline telecommunications. TDS' focus on the U.S. telecommunications industry, together with its positioning relative to larger competitors with greater resources within the industry, may represent increased risk for investors due to the lack of diversification. This could have an adverse effect on TDS' ability to profitably sustain long-term revenue growth and could have an adverse effect on its business, financial condition or results of operations.

12) TDS' lower scale relative to larger competitors could adversely affect its business, financial condition or results of operations.

There has been a trend in the telecommunications, IT services and related industries in recent years towards consolidation of service providers through acquisitions, reorganizations and joint ventures. This trend could continue, leading to larger competitors over time. TDS has lower scale efficiencies compared to larger competitors. TDS may be unable to compete successfully with larger companies that have substantially greater financial, technical, marketing, sales, purchasing and distribution resources or that offer more services than TDS, which could adversely affect TDS' revenues and costs of doing business. Specifically, TDS' smaller scale relative to most of its competitors could have the following impacts, among others:

- Increased operating costs due to lack of leverage with vendors;
- Limited opportunities for strategic partnerships as potential partners are focused on wireless, wireline and cable companies with greater scale;
- Limited access to content and programming;
- Limited access to wireless devices;
- Limited ability to influence industry standards;
- Reduced ability to invest in research and development of new products and services;
- Vendors may deem TDS non-strategic and not develop or sell products and services to TDS, particularly where technical requirements differ from those of larger companies;
- Limited access to intellectual property; and
- Other limited opportunities such as for software development, third party distribution, and amortization of fixed costs.

TDS' telecommunications businesses increasingly depend on access to content for data, music or video services and access to new wireless devices being developed by vendors. TDS' ability to obtain such access depends in part on other parties. If TDS is unable to obtain timely access to new content or wireless devices being developed by vendors, its business, financial condition or results of operations could be adversely affected.

As a result of the foregoing, TDS' lower scale relative to larger competitors could adversely affect TDS' business, financial condition or results of operations.

13) Changes in various business factors could have an adverse effect on TDS' business, financial condition or results of operations.

Changes in any of several factors could have an adverse effect on TDS' business, financial condition or results of operations. These factors include, but are not limited to:

- Demand for or usage of services, particularly data services;
- Customer preferences, including internet speed and type of wireless devices;
- Customer perceptions of network quality and performance;
- The pricing of services;
- Access to and cost of programming;
- The overall size and growth rate of TDS' customer base;
- Average revenue per customer;
- Penetration rates;
- Churn rates;
- Selling expenses;
- Net customer acquisition and retention costs;
- Customers' ability to pay for services and the potential impact on bad debts expense;
- Roaming agreements and rates;

- Third-party vendor support;
- The mix of products and services offered by TDS and purchased by customers; and
- The costs of providing products and services.

14) Advances or changes in technology could render certain technologies used by TDS obsolete, could put TDS at a competitive disadvantage, could reduce TDS' revenues or could increase its costs of doing business.

The telecommunications and IT services industries are experiencing significant technological change. In the telecommunications industry, this is evidenced by evolving industry standards, ongoing improvements in the capacity and quality of digital technology, shorter development cycles for new services, and products, and enhancements and changes in end-user requirements and preferences. Widespread deployment of new technologies could cause the technology used on TDS' wireless networks and traditional circuit-switched telephone services to become less competitive or obsolete. Also, high speed wireless networks ("wireless broadband") represent a product offering and opportunity for TDS' wireless business, but also represent a risk for TDS' Wireline business as customers may elect to substitute their wireline broadband connection for wireless broadband. Further, fixed-mobile convergence services that combine wireline broadband services with mobile services represent a competitive threat. In addition, the IT services market is characterized by rapidly changing technology and services. TDS may not be able to respond to such changes and implement new technology on a timely or cost-effective basis, which could reduce its revenues or increase its costs of doing business. If TDS cannot keep pace with these technological changes or other changes in the telecommunications or IT services industries over time, its financial condition, results of operations or ability to do business could be adversely affected.

15) Complexities associated with deploying new technologies present substantial risk.

Complexities associated with deploying new technologies present substantial risk to TDS' businesses.

TDS' wireless business has selected 4G LTE technology as its approach to address demand for services enabled by fourth generation wireless technology. The deployment of 4G LTE technology is impacted by a number of technical challenges.

Manufacturers of wireless devices ("Original Equipment Manufacturers" or "OEMs") must design and manufacture equipment that operates on the frequency bands available to TDS. This may involve software and hardware support for such bands in wireless device chipsets as well as band-specific designs for components such as filters. OEMs, chipset manufacturers, and component manufacturers will likely prioritize the support of frequency bands that are specified by the largest wireless carriers. Given TDS' smaller scale relative to its competitors, certain bands of spectrum licensed to TDS and its affiliates in certain cases represent a lower priority for chipset and wireless device manufacturers. As a result, the timing and the availability of wireless devices to support TDS' continued 4G LTE roll out could be negatively impacted. In addition, due to TDS' relatively smaller scale, the cost of such equipment could be higher for TDS than for TDS' competitors.

Additionally, the efficiency of LTE networks and the peak speeds they can provide are optimized when the technology is deployed in larger channel bandwidths that, in early releases of LTE, require larger amounts of contiguous spectrum. To the extent that TDS' competitors have access to larger contiguous spectrum positions, they may be able to offer faster speeds or provision their networks more efficiently. In order for TDS to realize the same LTE data transfer speeds as competitors, it is important that both network infrastructure and device manufacturers support non-contiguous spectrum aggregation features for TDS.

Lack of wireless devices available to TDS to support its 4G LTE network, comparatively smaller spectrum positions for 4G LTE deployments, or carrier aggregation standards that result in TDS delivering slower 4G LTE data transfer speeds relative to its competitors, could have an adverse impact on TDS' business, financial condition and results of operations.

TDS' Wireline business is deploying technologically advanced wireline services including advanced DSL, fiber optic and Very-high-speed digital subscriber line 2 ("VDSL2") technologies. A significant amount of the product development and integration risks are borne by TDS. Further, the simultaneous rollout of these advanced services and technologies increases the execution risk. If TDS fails to effectively deploy new technologies and products on a timely basis, this could have an adverse impact on TDS' business, financial condition and results of operations.

Cable's business is also subject to complexities associated with deploying new technologies and involves substantial risk, including rapid technology changes. If Cable's business does not respond appropriately to technology changes, its competitive position may be adversely affected.

The HMS business is also continuously evaluating and deploying advances in technology relating to IT services. If HMS fails to effectively deploy new technologies and products on a timely basis, this could have an adverse impact on its business, financial condition and results of operations.

16) TDS is subject to numerous surcharges and fees from federal, state and local governments, and the applicability and the amount of these fees are subject to great uncertainty.

Telecommunications providers pay a variety of surcharges and fees on their gross revenues from interstate and intrastate services, including USF fees and common carrier regulatory fees. The division of services between interstate services and intrastate services, including the divisions associated with the federal USF fees, is a matter of interpretation and may in the future be contested by the FCC or state authorities. The FCC also may change in the future the basis on which federal USF fees are charged. The Federal government and many states also apply transaction-based taxes to sales of TDS products and services and to purchases of telecommunications services from various carriers. In addition, state regulators and local governments have imposed and may continue to impose various surcharges, taxes and fees on TDS services. The applicability of these surcharges and fees to its services is uncertain in many cases and jurisdictions may contest whether TDS has assessed and remitted those monies correctly. Periodically state and federal regulators may increase or change the surcharges and fees TDS currently pays. In some instances TDS passes through these charges to its customers. However, Congress, the FCC, state regulatory agencies or state legislatures may limit the ability to pass through transaction-based tax liabilities, regulatory surcharges and regulatory fees imposed on TDS to customers. TDS may or may not be able to recover some or all of those taxes from its customers and the amount of taxes may deter demand for its services or increase its cost to provide service which could have an adverse effect on its business, financial condition or operating results.

17) Performance under device purchase agreements could have a material adverse impact on TDS' business, financial condition or results of operations.

In March 2013, U.S. Cellular entered into an agreement with Apple to purchase certain minimum quantities of iPhone products over a three-year period beginning in November 2013. TDS may enter into similar purchase commitments with other vendors in the future. If TDS is unable to sell all of the devices that it is required to purchase under such agreements, or if it is unable to sell them at the prices it projects, its business, financial condition or results of operations could be adversely affected.

18) Changes in TDS' enterprise value, changes in the market supply or demand for wireless licenses, wireline or cable markets or IT service providers, adverse developments in the businesses or the industries in which TDS is involved and/or other factors could require TDS to recognize impairments in the carrying value of its licenses, goodwill, franchise rights and/or physical assets.

A large portion of TDS' assets consists of indefinite-lived intangible assets in the form of licenses, goodwill and franchise rights. TDS also has substantial investments in long-lived assets such as property, plant and equipment. TDS reviews its licenses, goodwill, franchise rights and other long-lived assets for impairment annually or whenever events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. An impairment loss may need to be recognized to the extent the carrying value of the assets exceeds the fair value of such assets. The amount of any such impairment loss could be significant and could have an adverse effect on TDS' reported financial results for the period in which the loss is recognized. The estimation of fair values requires assumptions by management about factors that are uncertain including future cash flows, the appropriate discount rate and other factors. Different assumptions for these factors could create materially different results.

19) Costs, integration problems or other factors associated with acquisitions, divestitures or exchanges of properties or licenses and/or expansion of TDS' businesses could have an adverse effect on TDS' business, financial condition or results of operations.

As part of TDS' operating strategy, TDS from time to time may be engaged in the acquisition, divestiture or exchange of companies, businesses, strategic properties, wireless spectrum or other assets. TDS may change the markets in which it operates and the services that it provides through such acquisitions, divestitures and/or exchanges. In general, TDS may not disclose the negotiation of such transactions until a definitive agreement has been reached. These transactions commonly involve a number of risks, including:

- Identification of attractive companies, businesses, properties, spectrum or other assets for acquisition or exchange, and/or the selection of TDS' businesses or assets for divestiture or exchange;
- Competition for acquisition targets and the ability to acquire or exchange businesses at reasonable prices;
- Possible lack of buyers for businesses or assets that TDS desires to divest and the ability to divest or exchange such businesses or assets at reasonable prices;
- Ability to negotiate favorable terms and conditions for acquisitions, divestitures and exchanges;
- Significant expenditures associated with acquisitions, divestitures and exchanges;
- Legal and regulatory risks associated with new businesses or markets;
- Ability to enter markets in which TDS has limited or no direct prior experience and competitors have stronger positions;
- Ability to manage businesses that are engaged in activities other than traditional wireline and wireless service, including cable businesses and hosted and managed services businesses;

- Uncertain revenues and expenses associated with acquisitions, with the result that TDS may not realize the growth in revenues, anticipated cost structure, profitability, or return on investment that it expects;
- Difficulty of integrating the technologies, services, products, operations and personnel of the acquired businesses, or of separating such matters for divested businesses or assets;
- Diversion of management's attention;
- Disruption of ongoing business;
- Impact on TDS' cash and available credit lines for use in financing future growth and working capital needs;
- Inability to retain key personnel;
- Inability to successfully incorporate acquired assets and rights into TDS' service offerings;
- Inability to maintain uniform standards, controls, procedures and policies;
- Possible conditions to approval by the FCC, the Federal Trade Commission and/or the Department of Justice; and
- Impairment of relationships with employees, customers or vendors.

No assurance can be given that TDS will be successful with respect to its acquisition, divestiture or exchange strategies or initiatives. If TDS is not successful with respect to its acquisitions, divestitures or exchanges, its business, financial condition or results of operations could be adversely affected.

20) A significant portion of TDS' wireless revenues is derived from customers who buy services through independent agents who market TDS' services on a commission basis and third-party national retailers. If TDS' relationships with these agents or third-party national retailers are seriously harmed, its business, financial condition or results of operations could be adversely affected.

TDS has relationships with agents and third-party national retailers to obtain customers. Agents are independent business people who obtain customers for TDS on a commission basis. TDS' agents and third-party national retailers are generally in the business of selling wireless devices, wireless service packages and other related products.

TDS' business and growth depends, in part, on the maintenance of satisfactory relationships with its agents and third-party national retailers. If such relationships are seriously harmed or if such parties experience financial difficulties, including bankruptcy, TDS' revenues and, as a result, its business, financial condition or results of operations, could be adversely affected.

21) TDS' investments in unproven technologies may not produce the benefits that TDS expects.

TDS is making investments in various new technologies and service and product offerings. These investments include technologies for enhanced data service offerings, IPTV, cable and IT services. TDS expects new services, products and solutions based on these new technologies to contribute to future growth in its revenues. However, the markets for some of these services, products and solutions are still emerging and the overall potential for these markets remains uncertain. If customer demand for these new services, products and solutions does not develop as expected, TDS' business, financial condition or results of operations could be adversely affected.

22) A failure by TDS to complete significant network construction and systems implementation activities as part of its plans to improve the quality, coverage, capabilities and capacity of its networks and support systems could have an adverse effect on its operations.

TDS' business plan includes significant construction activities and enhancements to its network, support and other systems and infrastructure. In connection therewith, TDS must, among other things, continue to:

- Lease, acquire or otherwise obtain rights to cell and switch sites, data centers relating to IT services or other facilities;
- Obtain zoning variances or other local governmental or third-party approvals or permits for network construction;
- Complete and update the radio frequency design, including cell site design, frequency planning and network optimization, for each of TDS' wireless markets; and
- Improve, expand and maintain customer care, network management, billing and other financial and management systems.

Any difficulties encountered in completing these activities, as well as problems in vendor equipment availability, technical resources, system performance or system adequacy, could delay expansion of operations and product capabilities in new or existing markets or result in increased costs. Failure to successfully build-out and enhance TDS' network, support facilities and other systems and infrastructure in a cost-effective manner, and in a manner that satisfies customer expectations, could have an adverse effect on TDS' business, business prospects, financial condition or results of operations.

23) Financial difficulties (including bankruptcy proceedings) or other operational difficulties of TDS' key suppliers, termination or impairment of TDS' relationships with such suppliers, or a failure by TDS to manage its supply chain effectively could result in delays or termination of TDS' receipt of required equipment or services, or could result in excess quantities of required equipment or services, any of which could adversely affect TDS' business, financial condition or results of operations.

TDS depends upon certain vendors to provide it with equipment, services or content to continue its network construction and upgrade and to operate its business. TDS does not have operational or financial control over such key suppliers and has limited influence with respect to the manner in which these key suppliers conduct their businesses. If these key suppliers experience financial difficulties or file for bankruptcy or experience other operational difficulties, they may be unable to provide equipment, services or content to TDS on a timely basis or cease to provide such equipment, services or content or otherwise fail to honor their obligations to TDS.

Regulations regarding the use of "conflict minerals" mined from the Democratic Republic of Congo and adjoining countries may affect some of TDS' suppliers. These regulations may limit the availability of conflict free minerals and, as a result, TDS may not be able to obtain products in sufficient quantities or at competitive prices from its vendors who utilize such minerals in the manufacture of products.

In such cases, TDS may be unable to maintain and upgrade its network or provide products and services to its customers in a competitive manner, or could suffer other disruptions to its business. In that event, TDS' business, financial condition or results of operations could be adversely affected.

In addition, operation of TDS' supply chain and management of its inventory require accurate forecasting of customer growth and demand, which has become increasingly challenging. If overall demand for wireless devices or the mix of demand for wireless devices is significantly different than TDS' expectations, TDS could face inadequate or excess supplies of particular models of wireless devices. This could result in lost sales opportunities or an excess supply of inventory. Either of these situations could adversely affect TDS' revenues, costs of doing business, results of operations or financial condition.

24) TDS has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on TDS' financial condition or results of operations.

TDS has significant investments in entities that it does not control, including a 5.5% ownership interest in the Los Angeles SMSA Limited Partnership (the "LA Partnership") and a limited partnership interest in King Street Wireless L.P. TDS' interests in such entities do not provide TDS with control over the business strategy, financial goals, build-out plans or other operational aspects of these entities. TDS cannot provide assurance that these entities will operate in a manner that will increase the value of TDS' investments, that TDS' proportionate share of income from the LA Partnership and other investments will continue at the current level in the future or that TDS will not incur losses from the holding of such investments. Losses in the values of such investments or a reduction in income from the LA Partnership or other investments could adversely affect TDS' financial condition or results of operations.

25) A failure by TDS to maintain flexible and capable telecommunication networks or information technology, or a material disruption thereof, including breaches of network or information technology security, could have an adverse effect on TDS' business, financial condition or results of operations.

TDS relies extensively on its telecommunication networks and information technology to operate and manage its businesses, process transactions and summarize and report results. These networks and technology become obsolete over time and must be upgraded, replaced and/or otherwise enhanced over time. Enhancements must be more flexible and robust than ever before. All of this is capital intensive and challenging. A failure by TDS to maintain flexible and capable telecommunication networks or information technology could have an adverse effect on TDS' business, financial condition or results of operations.

The increased provision of data services including IPTV has introduced significant new demands on TDS' network and has also increased complexities related to network management. As it relates to Wireline's networks, the transition to new IP-based networks from well-established time-division multiplexing networks requires new support tools and technician skills. Further, this transition requires the use of more leased facilities and partnerships which require enhanced network monitoring and controls. The IP-based networks also generally require more electronics on customers' premises which introduces more technical risks and makes diagnostics and repairs more difficult.

Further, the increased provision of data services on TDS' networks has created an increased level of risk related to quality of service. This is due to the fact that many customers increasingly rely on data communications to execute and validate transactions. As a result, redundancy and geographical diversity of TDS' network facilities are critical to providing uninterrupted service. Also, the speed of repair and maintenance procedures in the event of network interruptions is critical to maintaining customer satisfaction. TDS' ability to maintain high quality, uninterrupted service to its customers is critical, particularly given the increasingly competitive environment and customers' ability to choose other service providers.

In addition, TDS' networks and information technology and the networks and information technology of vendors on which TDS relies are subject to damage or interruption due to various events, including power outages, computer, network and telecommunications failures, computer viruses, security breaches, hackers and other cyber security risks, catastrophic events, natural disasters, errors or unauthorized actions by employees and vendors, flawed conversion of systems, disruptive technologies and technology changes. TDS experiences cyber-attacks of varying degrees on a regular basis. TDS maintains administrative, technical and physical controls, as well as other preventative actions, to reduce the risk of security breaches. Although to date TDS has not experienced a material security breach, these efforts may be insufficient to prevent a security breach stemming from future cyber-attacks. If TDS' or its vendors' networks and information technology are not adequately adapted to changes in technology or are damaged or fail to function properly, and/or if TDS' or its vendors' security is breached or otherwise compromised, TDS could suffer adverse consequences, including theft, destruction or other loss of critical and private data, including customer and/or employee data, interruptions or delays in its operations, inaccurate billings, inaccurate financial reporting, and significant costs to remedy the problems. If TDS' or its vendors' systems become unavailable or suffer a security breach of customer or other data, TDS may be required to expend significant resources and take various actions to address the problems, including notification under data privacy laws and regulations, may be subject to fines, sanctions and litigation, and its reputation and operating results could be adversely affected. Such events may also cause TDS to fail to satisfy service level commitments to customers of its IT services. Any material disruption in TDS' networks or information technology, including security breaches, could have an adverse effect on TDS' business, financial condition or results of operations.

26) Wars, conflicts, hostilities and/or terrorist attacks or equipment failures, power outages, natural disasters or other events could have an adverse effect on TDS' business, financial condition or results of operations.

Wars, conflicts, hostilities, terrorist attacks, major equipment failures, power outages, natural disasters, or similar disasters or failures that affect TDS' wireless or wireline telephone switching offices, information systems, microwave links, third-party owned local and long-distance networks on which TDS relies, TDS' cell sites, data centers or other equipment or the networks of other providers and vendors which TDS or its customers use or on which customers roam could have an adverse effect on TDS' operations. Although TDS has certain back-up and similar arrangements, TDS has not established a formal, comprehensive business continuity or emergency response plan at this time. As a result, under certain circumstances, TDS may not be prepared to continue its operations, respond to emergencies or recover from disasters or other similar events. TDS' inability to operate its telecommunications systems or access or operate its information systems even for a limited time period may result in a loss of customers or impair TDS' ability to serve customers or attract new customers, which could have an adverse effect on TDS' business, financial condition or results of operations.

27) The market price of TDS' Common Shares is subject to fluctuations due to a variety of factors.

Factors that may affect the future market price of TDS' Common Shares include:

- General economic conditions, including conditions in the credit and financial markets;
- Industry conditions;
- Fluctuations in TDS' quarterly customer additions, churn rate, revenues, results of operations or cash flows;
- Variations between TDS' actual financial and operating results and those expected by analysts and investors; and
- Announcements by TDS' competitors.

Any of these or other factors could adversely affect the future market price of TDS' Common Shares, or could cause the future market price of TDS' Common Shares to fluctuate from time to time.

28) Identification of errors in financial information or disclosures could require amendments to or restatements of financial information or disclosures included in this or prior filings with the Securities and Exchange Commission ("SEC"). Such amendments or restatements and related matters, including resulting delays in filing periodic reports with the SEC, could have an adverse effect on TDS' business, financial condition or results of operations.

TDS prepares its consolidated financial statement in accordance with accounting principles generally accepted in the United States of America ("GAAP") and files such financial statements with the SEC in accordance with the SEC's rules and regulations. The possible identification of any errors in such prior filings with the SEC could require restatements of financial information or amendments to disclosures included in this or prior filings with the SEC.

Restatements and delays in filing reports with the SEC could have adverse consequences, including the following: TDS' credit ratings could be downgraded, which would result in an increase in its borrowing costs and could make it more difficult for TDS to borrow funds on satisfactory terms. The lenders on TDS' and U.S. Cellular's revolving credit agreements could refuse to waive a default or extend a waiver of default, impose restrictive covenants or conditions or require increased payments and fees. The holders of debt under TDS' indentures could attempt to assert a default and, if successful and TDS does not cure the default in a timely manner, accelerate the repayment date of such debt. The New York Stock Exchange could begin delisting proceedings with respect to the TDS Common Shares and TDS debt that is listed thereon. TDS may not be able to use or file shelf registration statements on Form S-3 for an extended period of time, which may limit TDS' ability to access the capital markets. TDS may not be able to use Form S-8 registration statements relating to its employee benefit plans, which may have an adverse effect on TDS' ability to attract and retain employees. TDS also could face shareholder litigation or SEC enforcement action. Any of these events could have an adverse effect on TDS' business, financial condition or results of operations.

29) The existence of material weaknesses in the effectiveness of internal control over financial reporting could result in inaccurate financial statements or other disclosures or failure to prevent fraud, which could have an adverse effect on TDS' business, financial condition or results of operations.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, TDS is required to furnish a report of management's assessment of the design and effectiveness of its internal control over financial reporting as part of its Form 10-K filed with the SEC. TDS management also is required to report on the effectiveness of TDS' disclosure controls and procedures. The independent auditors of TDS are required to attest to, and report on, the effectiveness of internal control over financial reporting. Material weaknesses could result in inaccurate financial statements or other disclosures or failure to prevent fraud, which could have an adverse effect on TDS' business, financial condition or results of operations. Further, if TDS does not successfully remediate any known material weaknesses in a timely manner, it could be subject to sanctions by regulatory authorities such as the SEC, it could fail to timely meet its regulatory reporting obligations, or investor perceptions could be negatively affected; each of these potential consequences could have an adverse effect on TDS' business, financial condition or results of operations.

30) Changes in facts or circumstances, including new or additional information that affects the calculation of potential liabilities for contingent obligations under guarantees, indemnities, claims, litigation or otherwise, could require TDS to record charges in excess of amounts accrued in the financial statements, if any, which could have an adverse effect on TDS' business, financial condition or results of operations.

The preparation of financial statements requires TDS to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. TDS bases its estimates on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from estimates under different assumptions or conditions. Changes in facts or circumstances, including new or additional information that affects the calculation of potential liabilities for contingent obligations under guarantees, indemnities, claims, litigation or otherwise, could require TDS to record charges in excess of amounts accrued in the financial statements, if any, which could have an adverse effect on TDS' business, financial condition or results of operations.

31) Disruption in credit or other financial markets, a deterioration of U.S. or global economic conditions or other events could, among other things, impede TDS' access to or increase the cost of financing its operating and investment activities and/or result in reduced revenues and lower operating income and cash flows, which would have an adverse effect on TDS' business, financial condition or results of operations.

Disruptions in the credit and financial markets, declines in consumer confidence, increases in unemployment, declines in economic growth and uncertainty about corporate earnings could have a significant negative impact on the U.S. and global financial and credit markets and the overall economy. Such events could have an adverse impact on financial institutions resulting in limited access to capital and credit for many companies. Furthermore, economic uncertainties make it very difficult to accurately forecast and plan future business activities. Changes in economic conditions, changes in financial markets, deterioration in the capital markets or other factors could have an adverse effect on TDS' business, financial condition, revenues, results of operations and cash flows.

32) Uncertainty of TDS' ability to access capital, deterioration in the capital markets, other changes in market conditions, changes in TDS' credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development or acquisition programs.

TDS and its subsidiaries operate capital-intensive businesses. TDS has used internally-generated funds and has also obtained substantial funds from external sources to finance the build-out and enhancement of markets, to fund acquisitions and for general corporate purposes. TDS also may require substantial additional capital for, among other uses, acquisitions of providers of wireless or wireline telecommunications services, cable markets, IT services or other businesses, spectrum license or system acquisitions, system development and network capacity expansion. There can be no assurance that sufficient funds will continue to be available to TDS or its subsidiaries on terms or at prices acceptable to TDS. Changes in TDS' credit ratings, uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, reduced regulatory capital at banks which in turn limits their ability to borrow and lend, other changes in market conditions or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development and acquisition programs. Reduction of TDS' construction, development and acquisition programs likely would have a negative impact on TDS' consolidated revenues, income and cash flows.

33) Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on TDS' business, financial condition or results of operations.

TDS is regularly involved in a number of legal and policy proceedings before the FCC and various state and federal courts. Such legal and policy proceedings can be complex, costly, protracted and highly disruptive to business operations by diverting the attention and energies of management and other key personnel.

The assessment of legal and policy proceedings is a highly subjective process that requires judgments about future events. Additionally, amounts ultimately received or paid upon settlement or resolution of litigation and other contingencies may differ materially from amounts accrued in the financial statements. Depending on a range of factors, these or similar proceedings could impose restraints on TDS' current or future manner of doing business. Such potential outcomes could have an adverse effect on TDS' financial condition, results of operations or ability to do business.

34) The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from wireless devices and/or cell sites cause harmful health consequences, including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on TDS' wireless business, financial condition or results of operations.

Media reports and certain professional studies have suggested that certain radio frequency emissions from wireless devices may be linked to various health problems, including cancer or tumors, and may interfere with various electronic medical devices, including hearing aids and pacemakers. U.S. Cellular is a party to and may in the future be a party to lawsuits against wireless carriers and other parties claiming damages for alleged health effects, including cancer or tumors, arising from wireless phones or radio frequency transmitters. Concerns over radio frequency emissions may discourage use of wireless devices or expose TDS to potential litigation. In addition, the FCC or other regulatory authorities may adopt regulations in response to concerns about radio frequency emissions. Any resulting decrease in demand for wireless services, costs of litigation and damage awards or regulation could have an adverse effect on TDS' business, financial condition or results of operations.

In addition, some studies have indicated that some aspects of using wireless devices while driving may impair drivers' attention in certain circumstances, making accidents more likely. These concerns could lead to potential litigation relating to accidents, deaths or serious bodily injuries, any of which could have an adverse effect on TDS' business, financial condition or results of operations.

Numerous state and local legislative bodies have enacted or proposed legislation restricting or prohibiting the use of wireless devices while driving motor vehicles. These enacted or proposed laws or other similar laws, if passed, could have the effect of reducing customer usage and/or increasing costs, which could have an adverse effect on TDS' business, financial condition, or results of operations.

35) Claims of infringement of intellectual property and proprietary rights of others, primarily involving patent infringement claims, could prevent TDS from using necessary technology to provide products or services or subject TDS to expensive intellectual property litigation or monetary penalties, which could have an adverse effect on TDS' business, financial condition or results of operations.

TDS faces possible effects of industry litigation relating to patents, other intellectual property or otherwise, that may restrict TDS' access to devices for sale to customers. If technology that TDS uses in products or services were determined by a court to infringe a patent or other intellectual property right held by another person, TDS could be precluded from using that technology and could be required to pay significant monetary damages. TDS also may be required to pay significant royalties to such person to continue to use such technology in the future. The successful enforcement of any intellectual property rights, or TDS' inability to negotiate a license for such rights on acceptable terms, could force TDS to cease using the relevant technology and offering services incorporating the technology. Any litigation to determine the validity of claims that TDS' products or services infringe or may infringe intellectual property rights of another, regardless of their merit or resolution, could be costly and divert the effort and attention of TDS' management and technical personnel. Regardless of the merits of any specific claim, TDS cannot give assurance that it would prevail in litigation because of the complex technical issues and inherent uncertainties in intellectual property litigation. Although TDS generally seeks to obtain indemnification agreements from vendors that provide it with technology, there can be no assurance that any claim of infringement will be covered by an indemnity or that TDS will be able to recover all or any of its losses and costs under any available indemnity agreements. Any claims of infringement of intellectual property and proprietary rights of others could prevent TDS from using necessary technology to provide its services or subject TDS to expensive intellectual property litigation or monetary penalties, which could have an adverse effect on TDS' business, financial condition or results of operations.

36) Certain matters, such as control by the TDS Voting Trust and provisions in the TDS Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of TDS.

The TDS Restated Certificate of Incorporation, as amended, and the TDS bylaws contain provisions which may serve to discourage or make more difficult a change in control of TDS without the support of the TDS Voting Trust and the TDS Board of Directors or without meeting various other conditions.

The TDS Restated Certificate of Incorporation, as amended, authorizes the issuance of different series of common stock, which have different voting rights. The TDS Series A Common Shares have the power to elect approximately 75% (less one) of the directors and have ten votes per share in matters other than the election of directors. The TDS Common Shares (with one vote per share) vote as a separate group only with respect to the election of 25% (plus one) of the directors. In addition, the total percentage voting power in matters other than the election of directors of the Series A Common Shares and Common Shares are fixed, at 56.7% and 43.3%, respectively, subject to adjustment due to changes in the number of outstanding Series A Common Shares.

A substantial majority of the outstanding TDS Series A Common Shares are held in the TDS Voting Trust which expires on June 30, 2035. The TDS Voting Trust was created to facilitate the long-standing relationships among the trustees' certificate holders. By virtue of the number of shares held by them, the voting trustees have the power to elect eight directors based on the current TDS Board of Directors' size of twelve directors, and control a majority of the voting power of TDS with respect to matters other than the election of directors.

The existence of the TDS Voting Trust is likely to deter any potential unsolicited or hostile takeover attempts or other efforts to obtain control of TDS and may make it more difficult for shareholders to sell shares of TDS at higher than market prices. The trustees of the TDS Voting Trust have advised TDS that they intend to maintain the ability to keep or dispose of voting control of TDS.

The TDS Restated Certificate of Incorporation, as amended, also authorizes the TDS Board of Directors to designate and issue TDS Undesignated Shares in one or more classes or series of preferred or common stock from time to time. Generally, no further action or authorization by the shareholders is necessary prior to the designation or issuance of the additional TDS Undesignated Shares authorized pursuant to the TDS Restated Certificate of Incorporation, as amended, unless applicable laws or regulations would require such approval in a given instance. Such TDS Undesignated Shares could be issued in circumstances that would serve to preserve control of TDS' then existing management.

In addition, the TDS Restated Certificate of Incorporation, as amended, includes a provision which authorizes the TDS Board of Directors to consider various factors, including effects on customers, taxes, and the long-term and short-term interests of TDS, in the context of a proposal or offer to acquire or merge the corporation, or to sell its assets, and to reject such offer if the TDS Board of Directors determines that the proposal is not in the best interests of the corporation based on such factors.

The provisions of the TDS Restated Certificate of Incorporation, as amended, and the TDS bylaws and the existence of various classes of capital stock could prevent shareholders from profiting from an increase in the market value of their shares as a result of a change in control of TDS by delaying or preventing such change in control.

37) Any of the foregoing events or other events could cause revenues, earnings, capital expenditures and/or any other financial or statistical information to vary from TDS' forward-looking estimates by a material amount.

From time to time, TDS may disclose forward-looking information, including estimates of future service revenues; income before income taxes; and/or capital expenditures. Any such forward-looking information includes consideration of known or anticipated changes to the extent disclosed, but dynamic market conditions and/or other unknown or unanticipated events, including but not limited to the risks discussed above, could cause such estimates to differ materially from the actual amounts.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

U.S. Cellular
U.S. Cellular's mobile telephone switching offices, cell sites, call centers and retail stores are located primarily in U.S. Cellular's operating markets and are either owned or leased under long-term leases by U.S. Cellular, one of its subsidiaries, or the partnership, limited liability company or corporation which holds the license issued by the FCC.

U.S. Cellular leases space for its corporate offices in Chicago, Bensenville and Wood Dale, Illinois; it also leases space for its network operations center in Schaumburg, Illinois and its regional and local market business offices. U.S. Cellular operates four customer care centers; one of the facilities used in these operations is owned and three are leased.

TDS Telecom
Wireline owns substantially all of its physical assets consisting of telephone distribution networks, network electronic equipment and land and buildings located in its ILEC operating markets. TDS Telecom leases most of its office space, retail sites, equipment, switching facility buildings, storage facilities and sales offices used in its CLEC operations.

Cable's principal physical assets consist of cable distribution networks, headends, towers and business offices. Cable generally leases business offices and space on the towers on which equipment is located while headends are located on owned or leased parcels of land.

HMS' principal physical assets consist of data centers and business offices which are either owned or leased.

TDS Telecom leases space for its corporate headquarters office in Madison, Wisconsin.

Corporate
TDS leases space for its corporate offices in Chicago, Illinois and Middleton, Wisconsin.

General
U.S. Cellular's cell and transmitter sites and TDS Telecom's telephone and cable lines are located on private and public property. Locations on private land are by virtue of easements or other arrangements. U.S. Cellular and TDS Telecom have not experienced major problems with obtaining zoning approval for cell and transmitter sites, telephone lines or other operating facilities and do not anticipate significant problems in this area in future periods.

U.S. Cellular's and TDS Telecom's properties, plant and equipment are maintained in good operating condition and are suitable and adequate for TDS' business operations.

As of December 31, 2013, Property, plant and equipment, net of accumulated depreciation, totaled $2,856.5 million at U.S. Cellular, $821.3 million at Wireline, $79.1 million at Cable, $84.2 million at HMS; and $37.0 million at Corporate, Airadigm and Suttle-Straus.

Item 3. 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. See Note 12 — Commitments and Contingencies in the Notes to Consolidated Financial Statements for further information.

Item 4. Mine Safety Disclosures.

Not applicable

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market, holder, dividend and performance graph information is incorporated by reference from Exhibit 13 to this Form 10-K, Annual Report sections entitled "Shareholder Information" and "Consolidated Quarterly Information (Unaudited)."

Information relating to Issuer Purchases of Equity Securities is set forth below.

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

TDS determines whether to repurchase shares from time to time based on many considerations, including cash needed for other known or possible requirements, the stock price, market conditions, debt rating considerations, business forecasts, business plans, macroeconomic conditions, share issuances under compensation plans, provisions in governing and legal documents and other legal requirements, and other facts and circumstances. Subject to these considerations, TDS may approve the repurchase of its shares from time to time when circumstances warrant.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that may yet be Purchased Under the Plans or Programs
October 1 - 31, 2013	59,040	$ 28.89	59,040	$ 242,480,888
November 1 - 30, 2013	75,263	28.88	75,263	240,307,656
December 1 - 31, 2013	-	-	-	240,307,656
Total for or as of the end of the quarter ended December 31, 2013	134,303	$ 28.88	134,303	$ 240,307,656

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

i. The date the program was announced was August 2, 2013 by Form 8-K.

ii. The amount approved was up to $250 million in aggregate purchase price of TDS Common Shares.

iii. The program does not have an expiration date.

iv. TDS did not determine to terminate the foregoing Common Share repurchase program, or cease making further purchases thereunder, during the fourth quarter of 2013.

Item 6. Selected Financial Data

Incorporated by reference from Exhibit 13 to this Form 10-K, Annual Report section entitled "Selected Consolidated Financial and Operating Data," except for Ratio of earnings to fixed charges, which is incorporated herein by reference from Exhibit 12 to this Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Incorporated by reference from Exhibit 13 to this Form 10-K, Annual Report section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Incorporated by reference from Exhibit 13 to this Form 10-K, Annual Report section entitled "Market Risk."

Item 8. Financial Statements and Supplementary Data

Incorporated by reference from Exhibit 13 to this Form 10-K, Annual Report sections entitled “Consolidated Statement of Operations,” “Consolidated Statement of Comprehensive Income,” “Consolidated Statement of Cash Flows,” “Consolidated Balance Sheet,” “Consolidated Statement of Changes in Equity,” “Notes to Consolidated Financial Statements,” “Management’s Report on Internal Control Over Financial Reporting,” “Report of Independent Registered Public Accounting Firm,” and “Consolidated Quarterly Information (Unaudited).”

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

As required by SEC Rule 13a-15(b), TDS carried out an evaluation, under the supervision and with the participation of management, including its principal executive officer and principal financial officer, of the effectiveness of the design and operation of TDS’ disclosure controls and procedures as of the end of the period covered by this Annual Report. Based on this evaluation, the principal executive officer and principal financial officer have concluded that TDS’ disclosure controls and procedures were effective as of December 31, 2013, at the reasonable assurance level.

Management’s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. TDS’ internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (“GAAP”). TDS’ internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and, where required, the board of directors of the issuer; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the issuer’s assets that could have a material effect on the interim or annual consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of TDS’ management, including its principal executive officer and principal financial officer, TDS conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2013, based on the criteria established in the 1992 version of *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Management has concluded that TDS maintained effective internal control over financial reporting as of December 31, 2013 based on criteria established in the 1992 version of *Internal Control — Integrated Framework* issued by the COSO.

The effectiveness of TDS’ internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in the firm’s report which is incorporated by reference into Item 8 of this Annual Report on Form 10-K from Exhibit 13 filed herewith.

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Changes in Internal Control Over Financial Reporting

Internal controls over financial reporting are updated as necessary to accommodate modifications to our business processes and accounting procedures. U.S. Cellular migrated its customers to a new billing and operational support system in 2013, which was completed in the third quarter of 2013. There were no changes in TDS' internal control over financial reporting during the fourth quarter of 2013 that have materially affected, or are reasonably likely to materially affect, TDS' internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Incorporated by reference from Proxy Statement sections entitled “Election of Directors,” “Corporate Governance,” “Executive Officers” and “Section 16(a) Beneficial Ownership Reporting Compliance.”

Item 11. Executive Compensation

Incorporated by reference from Proxy Statement section entitled “Executive and Director Compensation.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated by reference from Proxy Statement sections entitled “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance under Equity Compensation Plans.”

Item 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated by reference from Proxy Statement sections entitled “Corporate Governance” and “Certain Relationships and Related Transactions.”

Item 14. Principal Accountant Fees and Services

Incorporated by reference from Proxy Statement section entitled “Fees Paid to Principal Accountants.”

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as a part of this report:

(1) Financial Statements

Consolidated Statement of Operations	Annual Report*
Consolidated Statement of Comprehensive Income	Annual Report*
Consolidated Statement of Cash Flows	Annual Report*
Consolidated Balance Sheet	Annual Report*
Consolidated Statement of Changes in Equity	Annual Report*
Notes to Consolidated Financial Statements	Annual Report*
Management's Report on Internal Control Over Financial Reporting	Annual Report*
Report of Independent Registered Public Accounting Firm —PricewaterhouseCoopers LLP	Annual Report*
Consolidated Quarterly Information (Unaudited)	Annual Report*

* Incorporated by reference from Exhibit 13.

(2) Financial Statement Schedules

	Location
Los Angeles SMSA Limited Partnership Financial Statements	S-1
Report of Independent Registered Public Accounting Firm — Deloitte & Touche LLP	S-2
Balance Sheets	S-3
Statements of Operations	S-4
Statements of Changes in Partners' Capital	S-5
Statements of Cash Flows	S-6
Notes to Financial Statements	S-7

All other schedules have been omitted because they are not applicable or not required or because the required information is shown in the financial statements or notes thereto.

(3) Exhibits

The exhibits set forth in the accompanying Index to Exhibits are filed as a part of this Report. Compensatory plans or arrangements are identified in the Index to Exhibits with an asterisk.

LOS ANGELES SMSA LIMITED PARTNERSHIP
FINANCIAL STATEMENTS

TDS' subsidiary, U.S. Cellular, owns a 5.5% limited partnership interest in the Los Angeles SMSA Limited Partnership and accounts for such interest by the equity method. The partnership's financial statements were obtained by U.S. Cellular as a limited partner.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of
Los Angeles SMSA Limited Partnership:
Basking Ridge, New Jersey

We have audited the accompanying balance sheets of Los Angeles SMSA Limited Partnership (the "Partnership") as of December 31, 2013 and 2012, and the related statements of operations, changes in partners' capital, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Partnership as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
Atlanta, Georgia
February 28, 2014

Los Angeles SMSA Limited Partnership
Balance Sheets - As of December 31, 2013 and 2012
(Dollars in Thousands)

	2013	2012
ASSETS		
CURRENT ASSETS:		
Accounts receivable, net of allowance of $21,600 and $14,205	$ 363,069	$ 338,599
Unbilled revenue	20,070	19,491
Due from affiliate	316,794	243,748
Prepaid expenses and other current assets	4,357	4,537
Total current assets	704,290	606,375
PROPERTY, PLANT AND EQUIPMENT—Net	1,581,317	1,569,418
WIRELESS LICENSES	79,543	79,543
OTHER ASSETS	8,848	655
TOTAL ASSETS	$ 2,373,998	$ 2,255,991
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 117,972	$ 132,558
Advance billings and customer deposits	152,698	144,849
Deferred gain on lease transaction	4,923	4,923
Total current liabilities	275,593	282,330
LONG TERM LIABILITIES:		
Deferred gain on lease transaction	28,892	33,833
Other long term liabilities	34,411	23,964
Total long term liabilities	63,303	57,797
Total liabilities	338,896	340,127
PARTNERS' CAPITAL	2,035,102	1,915,864
TOTAL LIABILITIES AND PARTNERS' CAPITAL	$ 2,373,998	$ 2,255,991

See notes to financial statements.

Los Angeles SMSA Limited Partnership

Statements of Operations - Years Ended December 31, 2013, 2012 and 2011

(Dollars in Thousands)

	2013	2012	2011
OPERATING REVENUE:			
Service revenue	$ 4,166,296	$ 3,920,064	$ 3,782,027
Equipment and other	667,963	677,836	593,330
Total operating revenue	4,834,259	4,597,900	4,375,357
OPERATING COSTS AND EXPENSES:			
Cost of service (exclusive of depreciation and amortization)	753,438	705,065	797,797
Depreciation and amortization	337,313	343,565	366,119
Cost of equipment	885,502	948,130	955,002
Selling, general and administrative	1,445,229	1,375,852	1,263,604
Total operating costs and expenses	3,421,482	3,372,612	3,382,522
OPERATING INCOME	1,412,777	1,225,288	992,835
OTHER INCOME:			
Interest income, net	1,520	1,051	561
Other	4,941	4,941	6,964
Total other income	6,461	5,992	7,525
NET INCOME	$ 1,419,238	$ 1,231,280	$ 1,000,360
Allocation of Net Income:			
Limited Partners	$ 851,543	$ 738,768	$ 600,216
General Partner	$ 567,695	$ 492,512	$ 400,144

See notes to financial statements.

Los Angeles SMSA Limited Partnership
Statements of Changes in Partners' Capital - Years Ended December 31, 2013, 2012 and 2011
(Dollars in Thousands)

	General Partner	Limited Partners			
	AirTouch Cellular	AirTouch Cellular	Cellco Partnership	United States Cellular Corporation	Total Partners' Capital
BALANCE—January 1, 2011	$ 833,690	$ 881,627	$ 254,276	$ 114,631	$ 2,084,224
Distributions	(480,000)	(507,600)	(146,400)	(66,000)	(1,200,000)
Net Income	400,144	423,152	122,044	55,020	1,000,360
BALANCE—December 31, 2011	753,834	797,179	229,920	103,651	1,884,584
Distributions	(480,000)	(507,600)	(146,400)	(66,000)	(1,200,000)
Net Income	492,512	520,832	150,216	67,720	1,231,280
BALANCE—December 31, 2012	766,346	810,411	233,736	105,371	1,915,864
Distributions	(520,000)	(549,900)	(158,600)	(71,500)	(1,300,000)
Net Income	567,695	600,337	173,146	78,060	1,419,238
BALANCE—December 31, 2013	$ 814,041	$ 860,848	$ 248,282	$ 111,931	$ 2,035,102

See notes to financial statements.

Los Angeles SMSA Limited Partnership
Statements of Cash Flows - Years Ended December 31, 2013, 2012 and 2011
(Dollars in Thousands)

	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 1,419,238	$ 1,231,280	$ 1,000,360
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	337,313	343,565	366,119
Amortization of deferred gain on lease transaction	(4,941)	(4,957)	(4,949)
Provision for losses on accounts receivable	44,339	37,057	27,249
Changes in certain assets and liabilities:			
Accounts receivable	(68,809)	(69,272)	(47,942)
Unbilled revenue	(579)	2,761	(1,014)
Prepaid expenses and other current assets	180	(760)	(125)
Other assets	(8,193)	19	—
Accounts payable and accrued liabilities	(15,872)	18,548	24,243
Advance billings and customer deposits	7,849	9,826	8,518
Other long term liabilities	10,447	4,208	3,124
Net cash provided by operating activities	1,720,972	1,572,275	1,375,583
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures, net	(347,926)	(272,176)	(364,956)
Change in due from affiliate, net	(73,046)	(100,099)	189,373
Net cash used in investing activities	(420,972)	(372,275)	(175,583)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Distributions to partners	(1,300,000)	(1,200,000)	(1,200,000)
Net cash used in financing activities	(1,300,000)	(1,200,000)	(1,200,000)
CHANGE IN CASH	—	—	—
CASH—Beginning of year	—	—	—
CASH—End of year	$ —	$ —	$ —
NONCASH TRANSACTIONS FROM INVESTING ACTIVITIES:			
Accruals for Capital Expenditures	$ 12,689	$ 11,403	$ 3,372

See notes to financial statements.

Los Angeles SMSA Limited Partnership
Notes to Financial Statements – Years Ended December 31, 2013, 2012 and 2011.
(Dollars in Thousands)

1. ORGANIZATION AND MANAGEMENT

Los Angeles SMSA Limited Partnership – Los Angeles SMSA Limited Partnership (the "Partnership") was formed in 1984. The principal activity of the Partnership is providing cellular service in the Los Angeles metropolitan service area.

The partners and their respective ownership percentages as of December 31, 2013, 2012 and 2011 are as follows:

General Partner	
AirTouch Cellular* ("General Partner")	40.0%
Limited Partners:	
AirTouch Cellular*	42.3%
Cellco Partnership	12.2%
United States Cellular Corporation	5.5%

* AirTouch Cellular is a wholly-owned subsidiary of Verizon Wireless (VAW) LLC (a wholly-owned subsidiary of Cellco Partnership ("Cellco") doing business as Verizon Wireless.

In accordance with the partnership agreement, Cellco is responsible for managing the operations of the partnership (See Note 5).

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates — The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. Estimates are used for, but are not limited to, the accounting for: revenue and expense, allocations, allowance for uncollectible accounts receivable, unbilled revenue, depreciation and amortization, useful lives and impairment of assets, accrued expenses, and contingencies.

Revenue Recognition — The Partnership offers products and services to our customers through bundled arrangements. These arrangements involve multiple deliverables which may include products, services, or a combination of products and services.

The Partnership earns revenue by providing access to its network (access revenue) and usage of its network (usage revenue), which includes voice and data revenue. Customers are associated with the Partnership based upon mobile identification number. In general, access revenue is billed one month in advance and is recognized when earned; the unearned portion is classified in Advance billings in the balance sheet. Usage revenue is recognized when service is rendered and included in unbilled revenue until billed. Equipment sales revenue associated with the sale of wireless devices and related equipment costs are recognized when the products are delivered to and accepted by the customer, as this is considered to be a separate earnings process from the sale of wireless services. Customer activation fees charged to customers are considered additional consideration and are recorded in Equipment and other revenue, generally, at the time of customer acceptance. For agreements involving the resale of third-party services in which the Partnership is considered the primary obligor in the arrangements, the Partnership records revenue gross at the time of sale. For equipment sales, the Partnership currently subsidizes the cost of wireless devices. The amount of this subsidy is generally contingent on the arrangement and terms selected by the customer. In multiple deliverable arrangements which involve the sale of equipment and a service contract, the equipment revenue is recognized up to the amount collected when the wireless device is sold.
The roaming rates charged by the Partnership to Cellco do not necessarily reflect current market rates. The Partnership will continue to re-evaluate the rates on a periodic basis (See Note 5).

The Partnership reports taxes imposed by governmental authorities on revenue-producing transactions between us and our customers on a net basis.

Operating Costs and Expenses — Operating expenses include expenses incurred directly by the Partnership, as well as an allocation of selling, general and administrative, and operating costs incurred by Cellco or its affiliates on behalf of the Partnership. Employees of Cellco provide services performed on behalf of the Partnership. These employees are not employees of the Partnership, therefore operating expenses include direct and allocated charges of salary and employee benefit costs for the services provided to the Partnership. Cellco believes such allocations, principally based on the Partnership's percentage of total customers, customer gross additions or minutes-of-use, are in accordance with the Partnership Agreement and are a reasonable method of allocating such costs. The roaming rates charged to the Partnership by Cellco do not necessarily reflect current market rates. The Partnership will continue to re-evaluate the rates on a periodic basis (see Note 5).

Retail Stores — The daily operations of all retail stores owned by the Partnership are managed by Cellco. All fixed assets, liabilities, income and expenses related to these retail stores are recorded in the financial statements of the Partnership.

Comprehensive Income — Comprehensive income is the same as net income as presented in the accompanying statements of operations.

Income Taxes — The Partnership is not a taxable entity for federal and state income tax purposes. Any taxable income or loss is apportioned to the partners based on their respective partnership interests and is reported by them individually.

Inventory — Inventory is owned by Cellco and is not recorded on the Partnership's financial statements. Upon sale, the related cost of the inventory is transferred to the Partnership at Cellco's cost basis and included in the accompanying statements of operations.

Allowance for Doubtful Accounts — The Partnership maintains allowances for uncollectible accounts receivable for estimated losses resulting from the inability of customers to make required payments. Estimates are based on the aging of the accounts receivable balances and the historical write-off experience, net of recoveries.

Property, Plant and Equipment — Property, plant and equipment primarily represents costs incurred to construct and expand capacity and network coverage on mobile telephone switching offices and cell sites. The cost of property, plant and equipment is depreciated over its estimated useful life using the straight-line method of depreciation. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the related lease. Major improvements to existing plant and equipment that extend the useful lives are capitalized. Routine maintenance and repairs that do not extend the life of the plant and equipment are charged to expense as incurred **.**

Upon the sale or retirement of property, plant and equipment, the cost and related accumulated depreciation or amortization are eliminated and any related gain or loss is reflected in the statements of operations. All property, plant and equipment purchases are made through an affiliate of Cellco. Transfers of property, plant and equipment between Cellco and affiliates are recorded at net book value and included in due from affiliate until settled.

Network engineering costs incurred during the construction phase of the Partnership's network and real estate properties under development are capitalized as part of property, plant and equipment and recorded as construction in progress until the projects are completed and placed into service.

FCC Licenses — The Federal Communications Commission ("FCC") issues licenses that authorize cellular carriers to provide service in specific cellular geographic service areas. The FCC grants licenses for terms of up to ten years. In 1993 the FCC adopted specific standards to apply to cellular renewals, concluding it will award a license renewal to a cellular licensee that meets certain standards of past performance. Historically, the FCC has granted license renewals routinely and at nominal costs, which are expensed as incurred. The current terms of the Partnership's FCC licenses expire in October 2014, February 2016 and April 2017. Cellco and the Partnership believe they will be able to meet all requirements necessary to secure renewal of the Partnership's cellular licenses. FCC wireless licenses totaling $79,543 are recorded on the books of the Partnership as of December 31, 2013 and 2012. There are additional wireless licenses issued by the FCC that authorize the Partnership to provide cellular service recorded on the books of Cellco.

Valuation of Assets — Long-lived assets, including property, plant and equipment and intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

The Partnership's principal intangible assets are licenses, which provide the Partnership with the exclusive right to utilize certain radio frequency spectrum to provide wireless communication services. Cellco and the Partnership re-evaluate the useful life determination for wireless licenses at least annually to determine whether events and circumstances continue to support an indefinite useful life. Moreover, Cellco and the Partnership have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of the Partnership's wireless licenses. As a result, the wireless licenses are treated as an indefinite life intangible asset, and are not amortized but rather are tested for impairment.

Cellco and the Partnership test their wireless licenses for potential impairment annually, and more frequently if indications of impairment exist. In 2013, Cellco and the Partnership performed a qualitative assessment to determine whether it is more likely than not that the fair value of its wireless licenses was less than the carrying amount. As part of the assessment, Cellco and the Partnership considered several qualitative factors including the business enterprise value and other industry and market considerations. Based on our assessment in 2013, Cellco and the Partnership qualitatively concluded that it was more likely than not that the fair value of their wireless licenses significantly exceeded their carrying value and therefore did not result in any impairment. In 2012 and 2011 Cellco and the Partnership evaluated their licenses on an aggregate basis, using a direct income-based value approach. This approach estimates fair value using a discounted cash flow analysis to estimate what a marketplace participant would be willing to pay to purchase the aggregated wireless licenses as of the valuation date. If the fair value of the aggregated wireless licenses is less than the aggregated carrying amount of the wireless licenses, an impairment is recognized.

In addition, Cellco believes that under the Partnership agreement it has the right to allocate, based on a reasonable methodology, any impairment loss recognized by Cellco for all licenses included in Cellco's national footprint. Cellco does not charge the Partnership for the use of any FCC license recorded on its books (except for the annual cost of $51,699 related to the spectrum leases). Cellco and the Partnership evaluated their wireless licenses for potential impairment as of December 15, 2013 and December 15, 2012. These evaluations resulted in no impairment of wireless licenses.

Concentrations — The Partnership maintains allowances for uncollectible accounts receivable for estimated losses resulting from the inability of customers to make required payments. Estimates are based on historical net write-off experience. No single customer receivable is large enough to present a significant financial risk to the partnership.

Cellco and the Partnership rely on local and long-distance telephone companies, some of which are related parties (See Note 5), and other companies to provide certain communication services. Although management believes alternative telecommunications facilities could be found in a timely manner, any disruption of these services could potentially have a material adverse impact on the Partnership's operating results.

Although Cellco attempts to maintain multiple vendors for its network assets and inventory, which are important components of its operations, they are currently acquired from only a few sources. Certain of these products are in turn utilized by the Partnership and are important components of the Partnership's operations. If the suppliers are unable to meet Cellco's needs as it builds out its network infrastructure and sells service and equipment, delays and increased costs in the expansion of the Partnership's network infrastructure or losses of potential customers could result, which would adversely affect operating results.

Financial Instruments — The Partnership's trade receivables and payables are short-term in nature, and accordingly, their carrying value approximates fair value.

Due from affiliate — Due from affiliate principally represents the Partnership's cash position with Cellco. Cellco manages, on behalf of the Partnership, all cash, inventory, investing and financing activities of the Partnership. As such, the change in due from affiliate is reflected as an investing activity or a financing activity in the statements of cash flows depending on whether it represents a net asset or net liability for the Partnership.

Additionally, administrative and operating costs incurred by Cellco on behalf of the Partnership, as well as property, plant and equipment transactions with affiliates, are charged to the Partnership through this account. Starting in 2011, interest income is based on the Applicable Federal Rate which was approximately .2%, .2% and .4% for the years ended December 31, 2013, 2012 and 2011, respectively. Interest expense is calculated by applying Cellco's average cost of borrowing from Verizon Communications, Inc, which was approximately 7.4%, 7.3% and 6.8% for the years ended December 31, 2013, 2012 and 2011, respectively. Included in net interest income is interest income of $1,352, $1,123 and $712 for the years ended December 31, 2013, 2012 and 2011, respectively, related to due from affiliate.

Distributions - The Partnership is required to make distributions to its partners based upon the Partnership's operating results, due to/from affiliate status, and financing needs as determined by the General Partner at the date of the distribution.

Recently Adopted Accounting Standards - During the first quarter of 2013 we adopted the accounting standard update regarding testing of intangible assets for impairment. This standard update allows companies the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not the asset is impaired. The adoption of this standard did not have a significant impact on the financial statements.

Subsequent Events – Events subsequent to December 31, 2013 have been evaluated through February 28, 2014, the date the financial statements were issued.

3. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following as of December 31, 2013 and 2012:

	2013	2012
Land	$ 7,730	$ 7,742
Buildings and improvements (15-40 years)	633,840	575,456
Wireless plant and equipment (3-15 years)	3,483,289	3,265,052
Furniture, fixtures and equipment (3-10 years)	67,981	65,823
Leasehold improvements (5 years)	327,277	308,050
	4,520,117	4,222,123
Less: accumulated depreciation	(2,938,800)	(2,652,705)
Property, plant and equipment, net	$ 1,581,317	$ 1,569,418
Depreciation expense	$ 337,302	$ 343,565

Capitalized network engineering costs of $22,242 and $22,253 were recorded during the years ended December 31, 2013 and 2012, respectively. Construction in progress included in certain classifications shown above, principally wireless plant and equipment, amounted to $88,836 and $85,383 as of December 31, 2013 and 2012, respectively.

Tower Transactions – Prior to the acquisition of the Partnership interest by Cellco in 2000, Vodafone Group Plc ("Vodafone"), then parent company of AirTouch Cellular, entered into agreements to sublease all of its unused space on up to 430 of its communications towers ("Sublease Agreement") to SpectraSite Holdings, Inc. ("SpectraSite") in exchange for $155,000. At various closings in 2001 and 2000, SpectraSite leased 274 communications towers owned and operated by the Partnership for $98,465. At December 31, 2013 and 2012, the Partnership has $33,815 and $38,756, respectively, recorded as deferred gain on lease transaction. The Sublease Agreement requires monthly maintenance fees for the existing physical space used by the Partnership's cellular equipment. The Partnership paid $8,872, $11,421 and $12,150 to SpectraSite pursuant to the Sublease Agreement for the years ended December 31, 2013, 2012 and 2011, respectively, which is included in cost of service in the accompanying Statements of Operations.

4. CURRENT LIABILITIES

Accounts payable and accrued liabilities consist of the following as of December 31, 2013 and 2012:

	2013	2012
Accounts payable	$ 104,654	$ 117,935
Accrued liabilities	13,318	14,623
Accounts payable and accrued liabilities	$ 117,972	$ 132,558

Advance billings and customer deposits consist of the following as of December 31, 2013 and 2012:

	2013	2012
Advance billings	$ 148,328	$ 140,617
Customer deposits	4,370	4,232
Advance billings and customer deposits	$ 152,698	$ 144,849

5. TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

In addition to fixed asset purchases (see Note 2), substantially all of service revenues, equipment and other revenues, cost of service, cost of equipment, and selling, general and administrative expenses represent transactions processed by affiliates (Cellco and its related parties) on behalf of the Partnership or represent transactions with affiliates. These transactions consist of revenues and expenses that pertain to the Partnership which are processed by Cellco and directly attributed to or directly charged to the Partnership. They also include certain revenues and expenses that are processed or incurred by Cellco which are allocated to the Partnership based on factors such as the Partnership's percentage of customers, gross customer additions, or minutes of use. These transactions do not necessarily represent arm's length transactions and may not represent all revenues and costs if the Partnership operated on a standalone basis.

Service revenues - Service revenues include monthly customer billings processed by Cellco on behalf of the Partnership and roaming revenues relating to customers of other affiliated markets that are specifically identified to the Partnership. Service revenue also includes long distance, data, and certain revenue reductions including revenue concessions that are processed by Cellco and allocated to the Partnership based on certain factors deemed appropriate by Cellco.

Equipment and other revenues - Equipment revenue includes equipment sales processed by Cellco and specifically identified to the Partnership, as well as certain handset and

accessory revenues, contra-revenues including equipment concessions, and coupon rebates that are processed by Cellco and allocated to the Partnership based on certain factors deemed appropriate by Cellco. Other revenues include switch revenue and other fees and surcharges charged to the customer that are specifically identified to the Partnership.

Cost of Service - Cost of service includes roaming costs relating to customers roaming in other affiliated markets that are specifically identified to the Partnership. Cost of service also includes cost of telecom, long distance and application content that are incurred by Cellco and allocated to the Partnership based on certain factors deemed appropriate by Cellco. The Partnership has also entered into a lease agreement for the right to use additional spectrum owned by Cellco. See Note 6 for further information regarding this arrangement.

Cost of equipment - Cost of equipment includes the cost of inventory specifically identified and transferred to the Partnership (see Note 2). Cost of equipment also includes certain costs related to handsets, accessories and other costs incurred by Cellco and allocated to the Partnership based on certain factors deemed appropriate by Cellco.

Selling, general and administrative - Selling, general and administrative expenses include commissions, customer billing, office telecom, customer care, salaries, sales and marketing and advertising expenses that are specifically identified to the Partnership as well as incurred by Cellco and allocated to the Partnership based on certain factors deemed appropriate by Cellco.

6. COMMITMENTS

Cellco, on behalf of the Partnership, and the Partnership itself have entered into operating leases for facilities, and equipment and spectrum used in its operations. Lease contracts include renewal options that include rent expense adjustments based on the Consumer Price Index as well as annual and end-of-lease term adjustments. Rent expense is recorded on a straight-line basis. The noncancellable lease term used to calculate the amount of the straight-line rent expense is generally determined to be the initial lease term, including any optional renewal terms that are reasonably assured. Leasehold improvements related to these operating leases are amortized over the shorter of their estimated useful lives or the noncancellable lease term. For the years ended December 31, 2013, 2012 and 2011, the Partnership incurred a total of $139,341, $131,362 and $127,469, respectively, as rent expense related to these operating leases, which was included in cost of service and general and administrative expenses in the accompanying statements of operations. Aggregate future minimum rental commitmen t s under noncancellable operating leases, excluding renewal options that are not reasonably assured and remaining tower maintenance fees of $70,018 (See Note 3), for the years shown are as follows:

Years	Amount
2014	$ 96,696
2015	82,764
2016	70,595
2017	28,442
2018	14,521
2019 and thereafter	36,724
Total minimum payments	$ 329,742

On November 30, 2010, the Partnership entered into a 700 MHz upper band spectrum lease with Cellco. The lease includes an initial term extending through June 13, 2019 and a renewal option through June 13, 2029. The license, held by Cellco, is considered an indefinite-lived intangible as Cellco believes it will be able to meet all requirements necessary to secure renewal of this license. The Partnership accounts for this spectrum lease as an executory contract which is similar to an operating lease.

Based on the terms of the spectrum license lease as of December 31, 2013, future spectrum lease obligations, including the renewal period, are expected to be as follows:

Years	Amount
2014	$ 20,843
2015	20,843
2016	20,843
2017	20,843
2018	20,843
2019 and thereafter	217,112
Total minimum payments	$ 321,327

The General Partner currently expects that the renewal option in the lease will be exercised.

From time to time Cellco enters into purchase commitments, primarily for network equipment, on behalf of the Partnership. These represent legal obligations of Cellco.

7. CONTINGENCIES

Cellco and the Partnership are subject to lawsuits and other claims including class actions, product liability, patent infringement, intellectual property, antitrust, partnership disputes, and claims involving relations with resellers and agents. Cellco is also currently defending lawsuits filed against it and other participants in the wireless industry alleging various adverse effects as a result of wireless phone usage. Various consumer class action lawsuits allege that Cellco violated certain state consumer protection laws and other statutes and defrauded customers through misleading billing practices or statements. These matters may involve indemnification obligations by third parties and/or affiliated parties covering all or part of any potential damage awards against Cellco and the Partnership and/or insurance coverage. All of the above matters are subject to many uncertainties, and the outcomes are not currently predictable.

The Partnership may be allocated a portion of the damages that may result upon adjudication of these matters if the claimants prevail in their actions. In none of the currently pending matters is the amount of accrual material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued to either Cellco or the Partnership with respect to these matters as of December 31, 2013 cannot be made at this time due to various factors typical in contested proceedings, including (1) uncertain damage theories and demands; (2) a less than complete factual record; (3) uncertainty concerning legal theories and their resolution by courts or regulators; and (4) the unpredictable nature of the opposing party and its demands. We continuously monitor these proceedings as they develop and adjust any accrual or disclosure as needed. We do not expect that the ultimate resolution of any pending regulatory or legal matter in future periods will have a material effect on the financial condition of the Partnership, but it could have a material effect on our results of operations for a given reporting period.

8. RECONCILIATION OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Balance at Beginning of the Year	Additions Charged to Operations	Write-offs Net of Recoveries	Balance at End of the Year
Accounts Receivable Allowances:				
2013	$ 14,205	$ 44,339	$ (36,944)	$ 21,600
2012	14,076	37,057	(36,928)	14,205
2011	15,135	27,249	(28,308)	14,076

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELEPHONE AND DATA SYSTEMS, INC.

By: /s/ LeRoy T. Carlson, Jr.
LeRoy T. Carlson, Jr.
President and Chief Executive Officer
(principal executive officer)

By: /s/ Douglas D. Shuma
Douglas D. Shuma
Senior Vice President and Controller
(principal financial officer and principal accounting officer)

Dated: February 28, 2014

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ LeRoy T. Carlson, Jr. LeRoy T. Carlson, Jr.	Director	February 28, 2014
/s/ Letitia G. Carlson, M.D. Letitia G. Carlson, M.D.	Director	February 28, 2014
/s/ Prudence E. Carlson Prudence E. Carlson	Director	February 28, 2014
/s/ Walter C.D. Carlson Walter C.D. Carlson	Director	February 28, 2014
/s/ Clarence A. Davis Clarence A. Davis	Director	February 28, 2014
/s/ Kenneth R. Meyers Kenneth R. Meyers	Director	February 28, 2014
/s/ Donald C. Nebergall Donald C. Nebergall	Director	February 28, 2014
/s/ George W. Off George W. Off	Director	February 28, 2014
/s/ Christopher D. O'Leary Christopher D. O'Leary	Director	February 28, 2014
/s/ Mitchell H. Saranow Mitchell H. Saranow	Director	February 28, 2014
/s/ Gary L. Sugarman Gary L. Sugarman	Director	February 28, 2014
/s/ Herbert S. Wander Herbert S. Wander	Director	February 28, 2014

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INDEX TO EXHIBITS

Exhibit Number	Description of Documents
3.1	TDS' Restated Certificate of Incorporation, dated January 24, 2012, is hereby incorporated by reference to Exhibit 3.1 to TDS' Registration Statement on Form 8-A/A dated January 24, 2012.
3.2	TDS Restated Bylaws, as amended, are hereby incorporated by reference to Exhibit 3.1 to TDS' Current Report on Form 8−K dated July 19, 2013.
4.1	TDS' Restated Certificate of Incorporation is hereby incorporated as Exhibit 3.1.
4.2	TDS Restated Bylaws, as amended, are hereby incorporated as Exhibit 3.2.
4.3(a)	Indenture for Senior Debt Securities between TDS and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor to BNY Midwest Trust Company ("BNY") dated November 1, 2001 is hereby incorporated by reference to Exhibit 4 to TDS' Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
4.3(b)	Second Supplemental Indenture dated May 31, 2002 by and between TDS and BNY making changes to the First Supplemental Indenture is hereby incorporated by reference to Exhibit 4.8 to TDS' Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
4.3(c)	Third Supplemental Indenture dated March 31, 2005 by and between TDS and BNY, establishing TDS' 6.625% Senior Notes due 2045, is hereby incorporated by reference to Exhibit 4.1 to TDS' Current Report on Form 8−K dated March 23, 2005.
4.3(d)	Fourth Supplemental Indenture dated November 16, 2010 by and between TDS and BNY, establishing TDS' 6.875% Senior Notes due 2059, is hereby incorporated by reference to Exhibit 4.1 to TDS' Current Report on Form 8−K dated November 16, 2010.
4.3(e)	Fifth Supplemental Indenture dated March 21, 2011 by and between TDS and BNY, establishing TDS' 7% Senior Notes due 2060, is hereby incorporated by reference to Exhibit 4.1 to TDS' Current Report on Form 8-K dated March 21, 2011.
4.3(f)	Sixth Supplemental Indenture dated November 26, 2012 by and between TDS and BNY, establishing TDS' 5.875% Senior Notes due 2061, is hereby incorporated by reference to Exhibit 4.1 to TDS' Current Report on Form 8-K dated November 26, 2012.
4.4	Revolving Credit Agreement dated December 17, 2010 among TDS and the lenders named therein, and Bank of America, N.A. as Administrative Agent, is hereby incorporated by reference to Exhibit 4.1 to TDS' Current Report on Form 8-K dated December 17, 2010.
4.5	Revolving Credit Agreement dated December 17, 2010 among U.S. Cellular and the lenders named therein, and Toronto Dominion (Texas) LLC as Administrative Agent, is hereby incorporated by reference to Exhibit 4.1 to U.S. Cellular's Current Report on Form 8-K dated December 17, 2010.
4.6(a)	Indenture for Senior Debt Securities dated June 1, 2002 between U.S. Cellular and BNY is hereby incorporated by reference to Exhibit 4.1 to Form S-3 dated May 31, 2013 (File No. 333-188971).
4.6(b)	Form of Third Supplemental Indenture dated as of December 3, 2003 between U.S. Cellular and BNY, relating to $444,000,000 of U.S. Cellular's 6.7% Senior Notes due 2033, is hereby incorporated by reference to Exhibit 4.1 to U.S. Cellular's Current Report on Form 8-K dated December 3, 2003.
4.6(c)	Form of Fifth Supplemental Indenture dated as of June 21, 2004 between U.S. Cellular and BNY, relating to $100,000,000 of U.S. Cellular's 6.7% Senior Notes due 2033, is hereby incorporated by reference to Exhibit 4.1 to U.S. Cellular's Current Report on Form 8-K dated June 21, 2004.
4.6(d)	Form of Sixth Supplemental Indenture dated as of May 9, 2011 between U.S. Cellular and BNY, relating to $342,000,000 of U.S. Cellular's 6.95% Senior Notes due 2060, is hereby incorporated by reference to Exhibit 4.1 to U.S. Cellular's Current Report on Form 8-K dated May 9, 2011.
4.7	Indenture for Subordinated Debt Securities between TDS and BNY is hereby incorporated by reference to

	Exhibit 4.1 to TDS' Current Report on Form 8-K dated September 16, 2013.
4.8	Indenture for Subordinated Debt Securities between U.S. Cellular and BNY is hereby incorporated by reference to Exhibit 4.1 to U.S. Cellular's Current Report on Form 8-K dated September 16, 2013.
9.1	Amendment and Restatement (dated April 22, 2005) of Voting Trust Agreement dated June 30, 1989 is hereby incorporated by reference to the Exhibit filed on Amendment No. 3 to Schedule 13D dated May 2, 2005 filed by the trustees of such voting trust with respect to TDS Common Shares.
10.1(a)*	Salary Continuation Agreement for LeRoy T. Carlson dated May 20, 1977, as amended May 22, 1981 and May 25, 1984, is hereby incorporated by reference to TDS' Registration Statement on Form S-2, No. 2-92307.
10.1(b)*	Amendment to Salary Continuation Agreement for LeRoy T. Carlson is hereby incorporated by reference to Exhibit 10.4 to TDS' Current Report on Form 8-K dated November 25, 2008.
10.2(a)*	TDS Amended and Restated 2004 Long-Term Incentive Plan is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K dated April 11, 2005.
10.2(b)*	First Amendment to TDS Amended and Restated 2004 Long-Term Incentive Plan is hereby incorporated by reference to Exhibit 10.3 to TDS' Current Report on Form 8-K dated December 10, 2007.
10.2(c)*	Second Amendment to TDS Amended and Restated 2004 Long-Term Incentive Plan is hereby incorporated by reference to Exhibit 10.4 to TDS' Current Report on Form 8-K dated December 10, 2007.
10.2(d)*	Third Amendment to TDS Amended and Restated 2004 Long-Term Incentive Plan is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K dated December 22, 2008.
10.3*	Telephone and Data Systems, Inc. 2011 Long-Term Incentive Plan is hereby incorporated by reference to Exhibit 10.1 to the TDS Current Report on Form 8-K dated January 13, 2012.
10.4(a)*	TDS Supplemental Executive Retirement Plan, as amended and restated, effective January 1, 2009 is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K dated August 27, 2008.
10.4(b)*	Amendment to the Telephone and Data Systems, Inc. Supplemental Executive Retirement Plan, is hereby incorporated by reference to Exhibit 10.2 to Telephone and Data Systems, Inc.'s Current Report on Form 8-K dated March 15, 2012.
10.5*	TDS' Restated Compensation Plan for Non-Employee Directors, is hereby incorporated by reference to Exhibit A to the TDS Notice of Annual Meeting of Shareholders and Proxy Statement dated April 19, 2013.
10.6*	TDS Bonus Deferral and Stock Unit Match Program and Election Form is hereby incorporated by reference to Exhibit 10.6 to TDS' Annual Report on Form 10-K for the year ended December 31, 2012.
10.7*	U.S. Cellular 2005 Long-Term Incentive Plan, as amended, is hereby incorporated by reference to Exhibit C to U.S. Cellular's Notice of Annual Meeting of Shareholders and Proxy Statement dated April 15, 2009.
10.8*	U.S. Cellular 2013 Long-Term Incentive Plan, as amended, is hereby incorporated by reference to Exhibit A to U.S. Cellular's Notice of Annual Meeting of Shareholders and Proxy Statement dated April 15, 2013.
10.9(a)*	U.S. Cellular Executive Deferred Compensation Interest Account Plan is hereby incorporated by reference to Exhibit 10.1 to U.S. Cellular's Current Report on Form 8-K dated December 10, 2007.
10.9(b)*	First Amendment to U.S. Cellular Executive Deferred Compensation Interest Account Plan is hereby incorporated by reference to Exhibit 10.6 to U.S. Cellular's Current Report on Form 8-K dated December 9, 2008.
10.9(c)	Second Amendment to U.S. Cellular Executive Deferred Compensation Interest Account Plan is hereby incorporated by reference to Exhibit 10.12(c) to U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2012.
10.9(d)*	Election Form for U.S. Cellular Executive Deferred Compensation Interest Account Plan is hereby incorporated by reference to Exhibit 10.12(d) to U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2012.
10.10*	U.S. Cellular Form of Long-Term Incentive Plan Executive Deferred Compensation Agreement —Phantom Stock Account for officers is hereby incorporated by reference to Exhibit 10.5 to U.S. Cellular's Current Report on Form 8-K dated May 14, 2013.

10.11(a)*	TDS 2007 Deferred Compensation Agreement between TDS and Kenneth R. Meyers dated December 26, 2006 is hereby incorporated by reference to Exhibit 99.1 to TDS' Current Report on Form 8-K dated January 1, 2007.
10.11(b)*	Amendment to TDS 2007 Deferred Compensation Agreement between TDS and Kenneth R. Meyers is hereby incorporated by reference to Exhibit 10.4 to TDS Current Report on Form 8-K dated December 22, 2008.
10.12*	Form of TDS Corporate Officer Long-Term Incentive Plan Stock Option Award Agreement is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K dated May 10, 2013.
10.13*	Form of TDS Corporate Officer Long-Term Incentive Plan Restricted Stock Unit Award Agreement is hereby incorporated by reference to Exhibit 10.2 to TDS' Current Report on Form 8-K dated May 10, 2013.
10.14*	TDS 2013 Officer Bonus Program is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K dated March 6, 2013.
10.15*	U.S. Cellular 2013 Officer Annual Incentive Plan is hereby incorporated by reference to Exhibit 10.1 to U.S. Cellular's Current Report on Form 8-K dated July 22, 2013.
10.16*	Amended and Restated Guidelines for the Determination of Annual Bonus for Chairman Emeritus of TDS is hereby incorporated by reference to Exhibit 10.2 to TDS' Current Report on Form 8-K dated November 18, 2009.
10.17*	Form of TDS Deferred Compensation Agreement is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K dated December 21, 2009.
10.18*	Change of Election Form for TDS Deferred Compensation Agreement is hereby incorporated by reference to Exhibit 10.2 to TDS' Current Report on Form 8-K dated December 21, 2009.
10.19*	Pre 2005 Form of Deferred Compensation Agreement used by TDS Telecommunications Corporation is hereby incorporated by reference to Exhibit 10.28 to TDS' Annual Report on Form 10-K for the annual period ended December 31, 2009.
10.20(a)*	Post 2004 TDS Telecommunications Corporation Executive Deferred Compensation Program, as amended and restated effective January 1, 2008 is hereby incorporated by reference to Exhibit 10.29 to TDS' Annual Report on Form 10-K for the annual period ended December 31, 2009.
10.20(b)*	First Amendment to TDS Telecommunications Corporation Executive Deferred Compensation Program dated October 8, 2008 is hereby incorporated by reference to Exhibit 10.30 to TDS' Annual Report on Form 10-K for the annual period ended December 31, 2009.
10.21*	Current Initial Election Form and Post 2004 Payment Election Form for TDS Telecommunications Corporation Executive Deferred Compensation Program is hereby incorporated by reference to Exhibit 10.31 to TDS' Annual Report on Form 10-K for the annual period ended December 31, 2009.
10.22*	Current Annual Election Form for TDS Telecommunications Corporation Executive Deferred Compensation Program is hereby incorporated by reference to Exhibit 10.32 to TDS' Annual Report on Form 10-K for the annual period ended December 31, 2009.
10.23*	U.S. Cellular Form of Long-Term Incentive Plan Stock Option Award Agreement for officers is hereby incorporated by reference to Exhibit 10.3 to U.S. Cellular's Current Report on Form 8-K dated May 14, 2013.
10.24*	U.S. Cellular Form of Long-Term Incentive Plan Restricted Stock Unit Award Agreement for officers is hereby incorporated by reference to Exhibit 10.4 to U.S. Cellular's Current Report on Form 8-K dated May 14, 2013.
10.25*	Letter Agreement dated July 25, 2013 between U.S. Cellular and Kenneth R. Meyers is hereby incorporated by reference to Exhibit 10.1 to U.S. Cellular's Current Report on Form 8-K dated July 25, 2013.
10.26**	Master Service Agreement entered into by United States Cellular Corporation and Amdocs Software Systems Limited on August 17, 2010 to develop a Billing and Operational Support System ("B/OSS") with a new point-of-sale system to consolidate billing on one platform, is hereby incorporated by reference to Exhibit 10.8 to U.S. Cellular's Quarterly Report on Form 10-Q dated September 30, 2010.
10.27**	Software License and Maintenance Agreement entered into by United States Cellular Corporation and Amdocs Software Systems Limited on August 17, 2010 to develop a Billing and Operational Support System ("B/OSS") with a new point-of-sale system to consolidate billing on one platform, is hereby incorporated by reference to Exhibit 10.9 to U.S. Cellular's Quarterly Report on Form 10-Q dated September 30, 2010.

11	Statement regarding computation of earnings per share (included in Note 4 — Earnings Per Share in the Notes to Consolidated Financial Statements in Exhibit 13).
12	Statement regarding computation of ratio of earnings to fixed charges for the years ended December 31, 2013, 2012, 2011, 2010, and 2009.
13	Incorporated portions of 2013 Annual Report to Shareholders.
21	Subsidiaries of TDS.
23.1	Consent of Independent Registered Public Accounting Firm—PricewaterhouseCoopers LLP.
23.2	Consent of Independent Registered Public Accounting Firm—Deloitte & Touche LLP.
31.1	Principal executive officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.
31.2	Principal financial officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.
32.1	Principal executive officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2	Principal financial officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* Indicates a management contract or compensatory plan or arrangement.

** Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission as part of an application for confidential treatment pursuant to the Securities Exchange Act of 1934, as amended.

Exhibit 12

TELEPHONE AND DATA SYSTEMS, INC.
RATIO OF EARNINGS TO FIXED CHARGES
For the Year Ended December 31,

(Dollars in thousands)	2013	2012	2011	2010	2009
EARNINGS:					
Income before income taxes (1)	$ 292,864	$ 196,235	$ 363,745	$ 285,774	$ 385,488
Add (deduct):					
Equity in earnings of unconsolidated entities	(132,714)	(92,867)	(82,538)	(98,074)	(90,732)
Distributions from unconsolidated entities	127,929	84,884	92,231	100,845	91,587
Amortization of capitalized interest	4,638	1,676	1,109	867	497
Income attributable to noncontrolling interests in subsidiaries that do not have fixed charges	(5,651)	(25,709)	(22,004)	(21,938)	(20,333)
	287,066	164,219	352,543	267,474	366,507
Add fixed charges:					
Consolidated interest expense (2)	98,811	86,745	118,201	116,810	126,209
Interest portion (1/3) of consolidated rent expense	52,485	57,594	52,455	51,244	49,553
	$ 438,362	$ 308,558	$ 523,199	$ 435,528	$ 542,269
FIXED CHARGES:					
Consolidated interest expense (2)	$ 98,811	$ 86,745	$ 118,201	$ 116,810	$ 126,209
Capitalized interest	22,206	21,369	14,321	4,825	3,850
Interest portion (1/3) of consolidated rent expense	52,485	57,594	52,455	51,244	49,553
	$ 173,502	$ 165,708	$ 184,977	$ 172,879	$ 179,612
RATIO OF EARNINGS TO FIXED CHARGES	2.53	1.86	2.83	2.52	3.02
Tax-effected preferred dividends	$ 78	$ 78	$ 71	$ 75	$ 78
Fixed charges	173,502	165,708	184,977	172,879	179,612
Fixed charges and preferred dividends	$ 173,580	$ 165,786	$ 185,048	$ 172,954	$ 179,690
RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS	2.53	1.86	2.83	2.52	3.02

(1) Includes non-cash charges related to losses on impairment of $0.5 million in 2012 and $14.0 million in 2009.

Includes gain on sale of business and other exit costs, net of $300.7 million in 2013 and loss on sale of business and other exit costs, net of $21.1 million in 2012.

Includes gain on license sales and exchanges of $255.5 million in 2013 and $11.8 million in 2011.

Includes gain on investments of $14.5 million in 2013 and $24.1 million in 2011 and loss on investments of $3.7 million in 2012.

(2) Interest expense on income tax contingencies is not included in fixed charges.

Exhibit 13

Telephone and Data Systems, Inc.

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Telephone and Data Systems, Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Telephone and Data Systems, Inc. ("TDS") is a diversified telecommunications company providing high-quality telecommunications services to approximately 4.8 million wireless customers and 1.1 million wireline and cable connections at December 31, 2013. TDS conducts substantially all of its wireless operations through its 84%-owned subsidiary, United States Cellular Corporation ("U.S. Cellular"). TDS provides wireline services, cable services and hosted and managed services ("HMS"), through its wholly-owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom").

TDS conducts printing and distribution services through its majority-owned subsidiary, Suttle-Straus, Inc. ("Suttle-Straus") and provides wireless services through its wholly-owned subsidiary, Airadigm Communications, Inc. ("Airadigm"), a Wisconsin-based service provider. At this time, Airadigm operates independently from U.S. Cellular. Suttle-Straus and Airadigm's financial results were not significant to TDS' operations for the year ended December 31, 2013 and collectively represent the "Non-Reportable Segment."

The following discussion and analysis should be read in conjunction with TDS' audited consolidated financial statements and the description of TDS' business included in Item 1 of the TDS Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2013. The discussion and analysis contained herein refers to consolidated data and results of operations, unless otherwise noted.

OVERVIEW

The following is a summary of certain selected information contained in the comprehensive Management's Discussion and Analysis of Financial Condition and Results of Operations that follows. The overview does not contain all of the information that may be important. You should carefully read the entire Management's Discussion and Analysis of Financial Condition and Results of Operations and not rely solely on the overview.

Previously, TDS had reported the following reportable segments: U.S. Cellular, TDS Telecom's incumbent local exchange carrier ("ILEC"), its competitive local exchange carrier ("CLEC"), its HMS operations and the Non-Reportable Segment. As a result of recent acquisitions and changes in TDS' strategy, operations and internal reporting, TDS has reevaluated and changed its operating segments during the year ended December 31, 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. The HMS segment remains unchanged. Periods presented for comparative purposes have been re-presented to conform to this revised presentation.

U.S. Cellular

In its consolidated operating markets, U.S. Cellular serves approximately 4.8 million customers in 23 states. As of December 31, 2013, U.S. Cellular's average penetration rate in its consolidated operating markets was 15.0%. 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. U.S. Cellular's business development strategy is to obtain interests in and access to wireless licenses in its current operating markets and in areas that are adjacent to or in close proximity to its other wireless licenses, thereby building contiguous operating market areas with strong spectrum positions. U.S. Cellular believes that the acquisition of additional licenses within its current operating markets will enhance its network capacity to meet its customers' increased demand for data services. U.S. Cellular anticipates that grouping its operations into market areas will continue to provide it with certain economies in its capital and operating costs.

Financial and operating highlights in 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 Consolidated Financial Statements for additional information regarding this transaction.

- On May 16, 2013, U.S. Cellular completed the sale of customers and certain PCS license spectrum in U.S. Cellular's Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets ("Divestiture Markets"), to Sprint Corp., fka 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 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 as of June 11, 2013. Of the $482.3 million paid, TDS received $407.1 million while noncontrolling public shareholders received $75.2 million.

- On October 4, 2013, U.S. Cellular sold the majority of its Mississippi Valley non-operating market license ("unbuilt license") for $308.0 million. A pre-tax gain of $250.6 million was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations.

- In the fourth quarter of 2013, U.S. Cellular issued loyalty reward points with a value of $43.5 million as a loyalty bonus in recognition of the inconvenience experienced by customers during U.S. Cellular's recent billing system conversion. The loyalty bonus reduced Operating revenues in the Consolidated Statement of Operations and increased Customer deposits and deferred revenues in the Consolidated Balance Sheet.

- Total consolidated customers were 4,774,000 at December 31, 2013, including 4,610,000 retail customers (97% of total).

The following operating information is presented for Core Markets. As used here, Core Markets is defined as all consolidated markets in which U.S. Cellular currently conducts business and, therefore, excludes the Divestiture Markets and the NY1 & NY2 Deconsolidated Markets. Core Markets as defined also includes any other income or expenses due to U.S. Cellular's direct or indirect ownership interests in other spectrum in the Divestiture Markets which was not included in the Divestiture Transaction and other retained assets from the Divestiture Markets.

- Retail customer net losses were 215,000 in 2013 compared to net additions of 32,000 in 2012. In the postpaid category, there were net losses of 217,000 in 2013, compared to net losses of 92,000 in 2012. Prepaid net additions were 2,000 in 2013 compared to net additions of 124,000 in 2012.

- Postpaid customers comprised approximately 93% of U.S. Cellular's retail customers as of December 31, 2013 and December 31, 2012. The postpaid churn rate was 1.7% in 2013 and 1.5% in 2012. The prepaid churn rate was 6.7% in 2013 and 5.2% in 2012.

- Billed average revenue per user ("ARPU") increased to $50.82 in 2013 from $50.54 in 2012 reflecting an increase in postpaid ARPU due to increases in smartphone adoption and corresponding revenues from data products and services, offset by a decrease in prepaid ARPU. Service revenue ARPU decreased to $57.66 in 2013 from $58.49 in 2012 due primarily to decreases in inbound roaming and eligible telecommunications carriers ("ETC") revenues. The special issuance of loyalty rewards points in the fourth quarter of 2013 negatively impacted both billed ARPU and service revenue ARPU by $0.73 in 2013.

- Postpaid customers on smartphone service plans increased to 51% as of December 31, 2013 compared to 41% as of December 31, 2012. In addition, smartphones represented 69% of all devices sold in 2013 compared to 56% in 2012.

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

- Retail service revenues of $3,165.5 million decreased $382.5 million year-over-year, due to a decrease of 619,000 in the average number of customers (including approximately 550,000 due to the reductions caused by the Divestiture Transaction and NY1 & NY2 Deconsolidation).

- Total additions to Property, plant and equipment were $737.5 million, including expenditures to deploy fourth generation Long-Term Evolution ("4G LTE") equipment, construct cell sites, increase capacity in existing cell sites and switches, 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 13% year-over-year to 6,975 primarily as a result of the NY1 & NY2 Deconsolidation and the deactivation of certain cell sites in the Divestiture Markets.

- Operating income decreased $9.8 million, or 6%, to $146.9 million in 2013 from $156.7 million in 2012, reflecting lower service revenues as discussed above as well as lower inbound roaming revenues, higher equipment subsidies and accelerated depreciation related to the Divestiture Transaction. The impacts of these items were offset by lower operating expenses in other categories and gains related to sales of the Divestiture Markets and spectrum licenses. See additional discussion below in “Results of Operations — U.S. Cellular”.

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

- 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 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;
- Potential increases in prepaid customers, who generally generate lower ARPU and higher churn, 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 the use of 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 and enhancements;
- Further consolidation among carriers in the wireless industry, which could result in increased competition for customers and/or cause roaming revenues to decline;
- Uncertainty related to various rulemaking proceedings under way at the Federal Communications Commission (“FCC”);
- The ability to negotiate satisfactory 4G LTE data roaming agreements with other wireless operators;
- U.S. Cellular completed the migration of its customers to a new Billing and Operational Support System (“B/OSS”) in the third quarter of 2013. This conversion caused billing delays, which were largely resolved in the fourth quarter of 2013. In addition, intermittent system outages and delayed system response times negatively impacted customer service and sales operations at certain times. Continuing operational problems associated with the conversion to the new billing system could have adverse effects on U.S. Cellular’s business (in areas such as overall customer satisfaction, customer attrition, uncollectible accounts receivable, gross customer additions, or operating expenses). All of these factors could have a material adverse effect on U.S. Cellular’s results of operations or cash flows; and
- On August 14, 2013 U.S. Cellular entered into a definitive agreement to sell the majority of its St. Louis area unbuilt license for $92.3 million. The sale will result in an estimated pre-tax gain of $76.2 million. This transaction is subject to regulatory approval and is expected to close in the first quarter of 2014 at which time, the gain on sale will be recorded. In accordance with GAAP, the book value of the license has been accounted for and disclosed as “held for sale” in the Consolidated Balance Sheet at December 31, 2013.

See “Results of Operations — U.S. Cellular.”

TDS Telecom

The Wireline and Cable segments seek to be the preferred telecommunications solutions providers in their chosen markets serving both residential and commercial customers by developing and delivering high-quality products that meet or exceed customers' needs and to outperform the competition by maintaining superior customer service. TDS Telecom provides broadband, voice, and video services to residential customers through value-added bundling of products. The commercial focus is to provide advanced IP-based voice and data services to small to medium sized businesses. The HMS segment provides colocation, dedicated hosting, hosted application management, cloud computing services and planning, engineering, procurement, installation, sales and management of Information Technology ("IT") infrastructure hardware solutions.

On October 4, 2013, TDS acquired 100% of the outstanding shares of MSN Communications, Inc. ("MSN") for $43.6 million in cash. The operations of MSN are included in the HMS segment since the date of acquisition.

On August 1, 2013, TDS Telecom acquired substantially all of the assets of Baja Broadband, LLC ("Baja") for $264.1 million in cash. Baja operates in markets primarily in Colorado, New Mexico, Texas, and Utah. The operations of Baja are included in the Cable segment since the date of acquisition.

TDS Telecom acquired Vital Support Systems, LLC ("Vital") in June 2012 and OneNeck IT Services Corporation ("OneNeck IT Services") in July 2011. The operations of Vital and OneNeck IT Services are included in the HMS segment since their respective dates of acquisition.

All of these acquisitions impact the comparability of TDS Telecom operating results.

Financial and operating highlights in 2013 included the following:

- Operating revenues increased $92.5 million or 11% to $947.0 million in 2013. The increase was due primarily to $100.1 million from acquisitions of Vital in June 2012, Baja in August 2013 and MSN in October 2013, partially offset by a decrease in revenues due to declines in Wireline connections and a decline in Wireline wholesale revenues.

- Operating expenses increased $88.4 million or 11% to $902.2 million in 2013 due primarily to $101.2 million from the acquisitions noted above, partially offset by a decrease in Wireline expenses.

- Additions to Property, plant and equipment totaled $164.9 million in 2013 including strategic investment in increased network capabilities for broadband services, HMS expansion, IPTV expansion, and software tools that improve management of the network and support sales and customer service processes.

TDS anticipates that TDS Telecom's future results will be affected by the following factors:

- Continued increases in competition from wireless and other wireline providers, cable providers, and technologies such as VoIP, DOCSIS 3.0 and fourth generation ("4G") mobile technology;

- Continued increases in consumer data usage and demand for high-speed data services;

- Continued declines in Wireline voice connections;

- Continued focus on customer retention programs, including discounting for "triple-play" bundles including voice, broadband and video or satellite video;

- The expansion of IPTV into additional market areas;

- Continued growth in hosted and managed services which may result in the need for additional investment in data centers;

- Continued focus on cost-reduction initiatives through product and service cost improvements and process efficiencies;

- The Federal government's disbursement of Broadband Stimulus Funds to bring broadband to rural customers;

- The National Broadband Plan and other rulemaking by the FCC, including uncertainty related to future funding from the Universal Service Fund ("USF"), broadband requirements, intercarrier compensation and changes in access reform;

- Impacts of the Baja and MSN transactions, including, but not limited to, the ability to successfully integrate and operate these businesses and the financial impacts of such transactions; and

- Potential acquisitions or divestitures by TDS and/or TDS Telecom of wireline, cable, HMS, or other businesses.

See "Results of Operations—TDS Telecom."

Pro Forma Financial Information

Refer to TDS' Form 8-K filed on February 26, 2014 for pro forma financial information related to the Divestiture Transaction and the NY1 & NY2 Deconsolidation for the three and twelve months ended December 31, 2013, as if the transactions had occurred at the beginning of the respective periods. Also refer to TDS' Form 8-K filed on May 3, 2013 for pro forma financial information related to the Divestiture Transaction and the NY1 & NY2 Deconsolidation for the twelve months ended December 31, 2012.

REGULATORY DEVELOPMENTS

FCC Reform Order

In 2011, the FCC released an order ("Reform Order") to: reform its universal service and intercarrier compensation mechanisms; establish a new, broadband-focused support mechanism; and propose further rules to advance reform. Appeals of the Reform Order were consolidated and argued in the U.S. Court of Appeals for the 10 th Circuit on November 19, 2013, with a decision anticipated in 2014.

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

FCC Interoperability Order

On October 25, 2013, the FCC adopted a Report and Order and Order of Proposed Modification confirming a voluntary industry agreement on interoperability in the Lower 700 MHz spectrum band. The FCC's Report and Order lays out a roadmap for the voluntary commitments of AT&T and DISH Network Corporation ("DISH") to become fully binding under a regulatory framework which will require the FCC to take additional actions proposed to be completed by the first quarter of 2014. Pursuant to this voluntary agreement, AT&T will begin incorporating changes in its network and devices that will foster interoperability across all paired spectrum blocks in the Lower 700 MHz Band, collectively comprising "Band 12" under the standards of the 3 rd Generation Partnership Project ("3GPP"). AT&T also agreed to support LTE roaming on its networks for carriers with compatible Band 12 devices, consistent with the FCC's rules on roaming. As outlined in its voluntary commitment, AT&T will be implementing the foregoing changes in phases starting with network software enhancement taking place possibly through the third quarter of 2015 with its Band 12 device roll-out to follow. In addition the FCC has adopted changes in its technical rules for certain unpaired spectrum licensed to AT&T and DISH in the Lower 700 MHz band to enhance prospects for Lower 700 MHz interoperability. AT&T's network and devices currently only interoperate across two of the three paired blocks in the Lower 700 MHz band. U.S. Cellular's LTE deployment, carried out in conjunction with its partner, King Street Wireless, utilizes spectrum in all three of these blocks and consequently was not interoperable with the AT&T configuration. U.S. Cellular believes that the FCC action will broaden the ecosystem of devices available to U.S. Cellular's customers over time.

RESULTS OF OPERATIONS—CONSOLIDATED

Year Ended December 31,	2013	Increase/ (Decrease)	Percentage Change	2012	Increase/ (Decrease)	Percentage Change	2011
(Dollars in thousands, except per share amounts)							
Operating revenues							
U.S. Cellular	$ 3,918,836	$ (533,248)	(12)%	$ 4,452,084	$ 108,738	3%	$ 4,343,346
TDS Telecom	947,003	92,497	11%	854,506	39,118	5%	815,388
All other (1)	35,397	(3,290)	(9)%	38,687	16,950	78%	21,737
Total operating revenues	4,901,236	(444,041)	(8)%	5,345,277	164,806	3%	5,180,471
Operating expenses							
U.S. Cellular	3,771,971	(523,457)	(12)%	4,295,428	232,862	6%	4,062,566
TDS Telecom	902,171	88,407	11%	813,764	97,027	14%	716,737
All other (1)	(8,265)	(60,487)	>(100)	52,222	13,556	35%	38,666
Total operating expenses	4,665,877	(495,537)	(10)%	5,161,414	343,445	7%	4,817,969
Operating income (loss)							
U.S. Cellular	146,865	(9,791)	(6)%	156,656	(124,124)	(44)%	280,780
TDS Telecom	44,832	4,090	10%	40,742	(57,909)	(59)%	98,651
All other (1)	43,662	57,197	>100	(13,535)	3,394	20%	(16,929)
Total operating income	235,359	51,496	28%	183,863	(178,639)	(49)%	362,502
Other income (expenses)							
Equity in earnings of unconsolidated entities	132,714	39,847	43%	92,867	10,329	13%	82,538
Interest and dividend income	9,092	(156)	(2)%	9,248	103	1%	9,145
Gain (loss) on investments	14,547	18,265	>100	(3,718)	(27,821)	>(100)	24,103
Interest expense	(98,811)	12,066	14%	(86,745)	(31,456)	(27)%	(118,201)
Other, net	(37)	(757)	>(100)	720	(2,938)	(80)%	3,658
Total other income (expenses)	57,505	45,133	>100%	12,372	11,129	>100%	1,243
Income before income taxes	292,864	96,629	49%	196,235	(167,510)	(46)%	363,745
Income tax expense	126,043	52,461	71%	73,582	(39,921)	(35)%	113,503
Net income	166,821	44,168	36%	122,653	(127,589)	(51)%	250,242
Less: Net income attributable to noncontrolling interests, net of tax	24,894	(15,898)	(39)%	40,792	(8,884)	(18)%	49,676
Net income attributable to TDS shareholders	141,927	60,066	73%	81,861	(118,705)	(59)%	200,566
Preferred dividend requirement	(49)	(1)	(2)%	(50)	-	-	(50)
Net income available to common shareholders	$ 141,878	$ 60,067	73%	$ 81,811	$ (118,705)	(59)%	$ 200,516
Basic earnings per share attributable to TDS shareholders	$ 1.31	$ 0.56	75%	$ 0.75	$ (1.10)	(59)%	$ 1.85
Diluted earnings per share attributable to TDS shareholders	$ 1.29	$ 0.54	72%	$ 0.75	$ (1.08)	(59)%	$ 1.83

N/M - Percentage change not meaningful

(1) Consists of Non-Reportable Segment, corporate operations and intercompany eliminations between U.S. Cellular, TDS Telecom, the Non-Reportable Segment and corporate operations. TDS recognized an incremental gain of $53.5 million compared to U.S. Cellular upon closing of the Divestiture Transaction as a result of lower asset basis in the assets disposed.

Operating Revenues and Expenses

See "Results of Operations — U.S. Cellular" and "Results of Operations — TDS Telecom" below for factors that affected Operating revenues and expenses.

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents TDS' share of net income from entities in which it has a noncontrolling interest and that are accounted for by the equity method. TDS generally follows the equity method of accounting for unconsolidated entities in which its ownership interest is less than or equal to 50% but equals or exceeds 20% for corporations and 3% for partnerships and limited liability companies, or for unconsolidated entities in which its ownership is greater than 50% but TDS does not have a controlling financial interest.

TDS' investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed $78.4 million, $67.2 million and $55.3 million to Equity in earnings of unconsolidated entities in 2013, 2012 and 2011, respectively. TDS received cash distributions from the LA Partnership of $71.5 million in 2013 and $66.0 million in 2012 and 2011.

On April 3, 2013, TDS deconsolidated the NY1 & NY2 Partnerships and began reporting them as equity method investments in its consolidated financial statements as of that date. In 2013, TDS' investment in the NY1 & NY2 Partnerships contributed $24.7 million to Equity in earnings of unconsolidated entities subsequent to their deconsolidation. No amounts were included in 2012 or 2011 because the NY1 & NY2 Partnerships were consolidated in those years. Distributions from the NY1 & NY2 Partnerships of $29.4 million in 2013, after the deconsolidation on April 1, 2013, are included in Distributions from unconsolidated entities on the Consolidated Statement of Cash Flows.

Gain (loss) on investments

In connection with the deconsolidation of the NY1 & NY2 Partnerships, TDS recognized a non-cash pre-tax gain of $14.5 million which was recorded in Gain (loss) on investments in 2013. See Note 7 – Investments in Unconsolidated Entities for additional information.

Loss on investment in 2012 includes a provision for loss of $3.7 million related to a note receivable and preferred stock acquired by U.S. Cellular in connection with an acquisition in 1998. Gain on investment in 2011 includes a gain of $12.7 million from TDS' acquisition of 63% of Airadigm in September 2011 and a $13.4 million gain recorded as a result of adjusting the carrying value of a pre-existing noncontrolling interest for which U.S. Cellular purchased the remaining interest in May 2011, as more fully described in Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements.

Interest expense

Interest expense increased $12.1 million due primarily to the issuance of TDS' 5.875% Senior Notes in November 2012 for $195.0 million. This amount was partially offset by an increase in capitalized interest during 2013. TDS recorded $15.4 million in interest expense to write-off unamortized debt issuance costs related to TDS' $282.5 million, 7.6% Senior Notes, and U.S. Cellular's $330 million, 7.5% Senior Notes, redeemed on May 2, 2011 and June 20, 2011, respectively. The impact of these write-offs in 2011, along with lower effective interest rates on long-term debt and an increase in capitalized interest for multi-year projects during 2012, resulted in the year-over-year decrease of $31.5 million expense from 2011 to 2012.

Income tax expense

The effective tax rates on Income before income taxes and extraordinary items ("pre-tax income") for 2013, 2012 and 2011 were 43.0%, 37.5% and 31.2%, respectively. The following significant discrete and other items impacted income tax expense for these years:

2013 — Includes tax expense of $14.9 million related to the NY1 & NY2 Deconsolidation and the Divestiture Transaction, and a tax benefit of $5.5 million resulting from statute of limitation expirations.

2012 — Includes tax benefits of $11.3 million resulting from statute of limitation expirations and $6.1 million resulting from corrections relating to prior periods, offset by tax expense of $1.3 million related to state income tax audits and tax expense associated with increases to state deferred tax asset valuation allowances of $5.2 million.

2011 — Includes a tax benefit of $26.9 million resulting from state tax law changes, a tax benefit of $9.0 million resulting from statute of limitation expirations and tax expense of $6.0 million resulting from correction of partnership tax basis relating to a prior period.

See Note 3 — Income Taxes in the Notes to Consolidated Financial Statements for further information on the effective tax rate.

Net income attributable to noncontrolling interests, net of tax

Net income attributable to noncontrolling interests, net of tax includes the noncontrolling public shareholders' share of U.S. Cellular's net income, the noncontrolling shareholders' or partners' share of certain U.S. Cellular subsidiaries' net income or loss and other TDS noncontrolling interests.

Year Ended December 31, (Dollars in thousands)	2013	2012	2011
Net income attributable to noncontrolling interest, net of tax			
U.S. Cellular			
Noncontrolling public shareholders'	$ 21,775	$ 18,431	$ 28,934
Noncontrolling shareholders' or partners' (1)	3,119	22,361	20,742
	$ 24,894	$ 40,792	$ 49,676

(1) The large decrease in 2013 is primarily due to the elimination of the noncontrolling interest as a result of the NY1 & NY2 Deconsolidation on April 3, 2013.

RESULTS OF OPERATIONS — U.S. CELLULAR

TDS provides wireless telephone service through U.S. Cellular, an 84%-owned subsidiary. U.S. Cellular owns, manages and invests in wireless markets throughout the United States.

Summary Operating Data for U.S. Cellular Consolidated Markets

Following is a table of summarized operating data for U.S. Cellular's Consolidated Markets. Consolidated Markets herein refers to markets which U.S. Cellular currently consolidates, or previously consolidated in the periods presented, and is not adjusted in prior periods presented for subsequent divestitures or deconsolidations. Unless otherwise noted, figures reported in Results of Operations are representative of consolidated results.

As of or for the Year Ended December 31,	2013	2012	2011
Retail Customers			
Postpaid			
Total at end of period	4,267,000	5,134,000	5,302,000
Gross additions	697,000	880,000	836,000
Net additions (losses)	(325,000)	(165,000)	(117,000)
ARPU(1)	$ 54.31	$ 54.32	$ 52.20
Churn rate(2)	1.8 %	1.7 %	1.5 %
Smartphone penetration(3)(4)	50.8 %	41.8 %	30.5 %
Prepaid			
Total at end of period	343,000	423,000	306,000
Gross additions	309,000	368,000	228,000
Net additions (losses)	(21,000)	118,000	(8,000)
ARPU(1)	$ 31.44	$ 33.26	$ 33.42
Churn rate(2)	7.0 %	6.0 %	6.6 %
Total customers at end of period	4,774,000	5,798,000	5,891,000
Billed ARPU(1)	$ 50.73	$ 50.81	$ 48.63
Service revenue ARPU(1)	$ 57.61	$ 58.70	$ 56.54
Smartphones sold as a percent of total devices sold	68.4 %	55.8 %	44.0 %
Total Population			
Consolidated markets(5)	58,013,000	93,244,000	91,965,000
Consolidated operating markets(5)	31,759,000	46,966,000	46,888,000
Market penetration at end of period			
Consolidated markets(6)	8.2 %	6.2 %	6.4 %
Consolidated operating markets(6)	15.0 %	12.3 %	12.6 %
Capital expenditures (000s)	$ 737,501	$ 836,748	$ 782,526
Total cell sites in service	6,975	8,028	7,882
Owned towers in service	4,448	4,408	4,311

Summary Operating Data for U.S. Cellular Core Markets

Following is a table of summarized operating data for U.S. Cellular's Core Markets (which excludes the Divestiture Markets and NY1 and NY2 markets) as of or for the year ended December 31, 2013 or 2012.

As of or for the Year Ended December 31,	2013	2012
Retail Customers		
Postpaid		
Total at end of period	4,267,000	4,496,000
Gross additions	682,000	746,000
Net additions (losses)	(217,000)	(92,000)
ARPU(1)	$ 54.23	$ 53.65
Churn rate(2)	1.7 %	1.5 %
Smartphone penetration(3)(4)	50.8 %	41.1 %
Prepaid		
Total at end of period	343,000	342,000
Gross additions	295,000	288,000
Net additions (losses)	2,000	124,000
ARPU(1)	$ 31.45	$ 32.98
Churn rate(2)	6.7 %	5.2 %

Total customers at end of period		4,774,000		5,022,000
Billed ARPU (1)	$	50.82	$	50.54
Service revenue ARPU(1)	$	57.66	$	58.49
Smartphones sold as a percent of total devices sold		68.6 %		56.1 %
Total Population				
Consolidated markets(5)		58,013,000		83,384,000
Consolidated operating markets(5)		31,759,000		31,445,000
Market penetration at end of period				
Consolidated markets(6)		8.2 %		6.0 %
Consolidated operating markets(6)		15.0 %		16.0 %
Capital expenditures (000s)	$	735,082	$	768,884
Total cell sites in service		6,161		6,130
Owned towers in service		3,913		3,847

(1) ARPU metrics are calculated by dividing a revenue base by an average number of customers by the number of months in the period. These revenue bases and customer populations are shown below:

a. Postpaid ARPU consists of total postpaid service revenues and postpaid customers.
b. Prepaid ARPU consists of total prepaid service revenues and prepaid customers.
c. Billed ARPU consists of total postpaid, prepaid and reseller service revenues and postpaid, prepaid and reseller customers.
d. Service revenue ARPU consists of total retail service revenues, inbound roaming and other service revenues and postpaid, prepaid and reseller customers.

(2) Churn metrics represent the percentage of the postpaid or prepaid customers that disconnects service each month. These metrics represent the average monthly postpaid or prepaid churn rate for each respective period.

(3) Smartphones represent wireless devices which run on an Android, Apple, BlackBerry or Windows Mobile operating system, excluding tablets.

(4) Smartphone penetration is calculated by dividing postpaid smartphone customers by total postpaid customers.

(5) Used only to calculate market penetration of consolidated and core markets and consolidated and core operating markets, respectively. See footnote (6) below.

(6) Market penetration is calculated by dividing the number of wireless customers at the end of the period by the total population of consolidated and core markets and consolidated and core operating markets, respectively, estimated by Claritas.

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2013	Increase/ (Decrease)	Percentage Change	2012	Increase/ (Decrease)	Percentage Change	2011
Retail service	$ 3,165,496	$ (382,483)	(11)%	$ 3,547,979	$ 61,457	2%	$ 3,486,522
Inbound roaming	263,186	(85,531)	(25)%	348,717	408	N/M	348,309
Other	166,091	(36,069)	(18)%	202,160	(16,806)	(8)%	218,966
Service revenues	3,594,773	(504,083)	(12)%	4,098,856	45,059	1%	4,053,797
Equipment sales	324,063	(29,165)	(8)%	353,228	63,679	22%	289,549
Total operating revenues	3,918,836	(533,248)	(12)%	4,452,084	108,738	3%	4,343,346
System operations (excluding Depreciation, amortization and accretion reported below)	763,435	(183,370)	(19)%	946,805	17,426	2%	929,379
Cost of equipment sold	999,000	63,053	7%	935,947	144,145	18%	791,802
Selling, general and administrative	1,677,395	(87,538)	(5)%	1,764,933	(4,768)	N/M	1,769,701
Depreciation, amortization and accretion	803,781	195,148	32%	608,633	35,076	6%	573,557
(Gain) loss on asset disposals, net	30,606	(12,518)	(69)%	18,088	(8,199)	(83)%	9,889
(Gain) loss on sale of business and other exit costs, net	(246,767)	267,789	>100	21,022	(21,022)	N/M	-
(Gain) loss on license sales and exchanges	(255,479)	255,479	N/M	-	(11,762)	N/M	(11,762)
Total operating expenses	3,771,971	(523,457)	(12)%	4,295,428	232,862	6%	4,062,566
Operating income	$ 146,865	$ (9,791)	(6)%	$ 156,656	$ (124,124)	(44)%	$ 280,780

N/M - Percentage change not meaningful

Operating Revenues

Service revenues

Service revenues consist primarily of: (i) charges for access, airtime, roaming, recovery of regulatory costs and value−added services, including data products and services, provided to U.S. Cellular's retail customers and to end users through third-party resellers ("retail service"); (ii) charges to other wireless carriers whose customers use U.S. Cellular's wireless systems when roaming, including long-distance roaming ("inbound roaming"); and (iii) amounts received from the Federal USF.

Retail service revenues

Retail service revenues decreased by $382.5 million, or 11%, to $3,165.5 million due primarily to a decrease in U.S. Cellular's average customer base (including the reductions caused by the Divestiture Transaction and NY1 & NY2 Deconsolidation) and a slight decrease in billed ARPU. In 2012, retail service revenues increased by $61.5 million, or 2%, to $3,548.0 million due primarily to the impact of an increase in billed ARPU, partially offset by a decrease in U.S. Cellular's average customer base.

In the fourth quarter of 2013, U.S. Cellular issued loyalty reward points with a value of $43.5 million as a loyalty bonus in recognition of the inconvenience experienced by customers during U.S. Cellular's recent billing system conversion. The value of the loyalty bonus reduced Operating revenues in the Consolidated Statement of Operations and increased Customer deposits and deferred revenues in the Consolidated Balance Sheet.

Billed ARPU of $50.73 in 2013 was relatively flat compared to $50.81 in 2012. The special issuance of loyalty rewards points in the fourth quarter of 2013 negatively impacted billed ARPU by $0.70 in 2013, which was partially offset by an increase in smartphone adoption and corresponding revenues from data products and services. The increase in billed ARPU in 2012 from $48.63 in 2011 also reflects the impact of a larger portion of the customer base using smartphones which drives incremental data access revenue.

U.S. Cellular expects continued pressure on revenues in the foreseeable future due to industry competition for customers and related effects on pricing of service plan offerings offset to some degree by continued adoption of smartphones and data usage.

Inbound roaming revenues

Inbound roaming revenues decreased by $85.5 million, or 25% in 2013 to $263.2 million. The decrease was due primarily to lower rates ($47.9 million) and the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation ($37.6 million). Data volume increased year-over year but the impact of this increase was offset by the combined impacts of lower volume for voice and lower rates for both data and voice. The decline in roaming revenues was offset by a decline in roaming expense also due to lower rates. U.S. Cellular expects continued growth in data volume but also expects that the revenue impact of this growth will be offset by the impacts of decreases in data rates and voice volume.

Inbound roaming revenues of $348.7 million were flat in 2012 compared to 2011 as higher data revenues, reflecting significantly higher volumes but lower negotiated rates, were offset by lower voice revenues, reflecting both lower volumes and rates.

Other revenues

Other revenues decreased by $36.1 million, or 18%, in 2013 compared to 2012. In 2012, Other revenues decreased by $16.8 million, or 8%. The decreases in both years are due primarily to decreases in ETC support.

Pursuant to the FCC's Reform Order (See "Overview – FCC Reform Order"), U.S. Cellular's current ETC support is being phased down at the rate of 20% per year beginning July 1, 2012. If the Phase II Mobility Fund is not operational by July 2014, the phase down will halt at that time and U.S. Cellular will continue to receive 60% of its baseline support until the Phase II Mobility Fund is operational.

At this time, U.S. Cellular cannot predict the net effect of the FCC's changes to the USF high cost support program in the Reform Order. Accordingly, U.S. Cellular cannot predict whether such changes will have a material adverse effect on U.S. Cellular's business, financial condition or results of operations.

Equipment sales revenues

Equipment sales revenues include revenues from sales of wireless devices and related accessories to both new and existing customers, as well as revenues from sales of wireless devices and accessories to agents. All Equipment sales revenues are recorded net of rebates.

U.S. Cellular offers a competitive portfolio of quality wireless devices to both new and existing customers. U.S. Cellular's customer acquisition and retention efforts include offering new wireless devices to customers at discounted prices; in addition, customers on currently offered rate plans receive loyalty reward points that may be used to purchase a new wireless device or accelerate the timing of a customer's eligibility for a wireless device upgrade at promotional pricing. U.S. Cellular also continues to sell wireless devices to agents including national retailers; this practice enables U.S. Cellular to provide better control over the quality of wireless devices sold to its customers, establish roaming preferences and earn quantity discounts from wireless device manufacturers which are passed along to agents and other retailers.

The decrease in 2013 equipment sales revenues of $29.2 million, or 8%, to $324.1 million was driven primarily by selling fewer devices, partially due to the Divestiture Transaction. Declines in volume were offset by an increase of 12.0% in average revenue per device. The increase in 2012 equipment sales revenues of $63.7 million, or 22%, to $353.2 million was driven primarily by a 17% increase in average revenue per wireless device sold; an increase in equipment activation fees also was a factor. Average revenue per wireless device sold increased in both years due to a continued shift in customer preference to higher priced smartphones.

Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

System operations expenses (excluding Depreciation, amortization and accretion) include charges from telecommunications service providers for U.S. Cellular's customers' use of their facilities, costs related to local interconnection to the wireline network, charges for cell site rent and maintenance of U.S. Cellular's network, long-distance charges, outbound roaming expenses and payments to third−party data product and platform developers.

System operations expenses decreased $183.4 million, or 19%, to $763.4 million in 2013 and increased $17.4 million, or 2%, to $946.8 million in 2012. Key components of the net changes in System operations expenses were as follows:

- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming decreased $64.1 million, or 27%, in 2013 and $11.1 million, or 4%, in 2012, due primarily to lower rates and the impacts of the Divestiture Transaction and NY1 & NY2 Deconsolidation. For both years, data roaming usage increased; however, the impact of the increase was more than offset by lower rates for both data and voice and lower voice volume.

- Maintenance, utility and cell site expenses decreased $61.6 million, or 15%, in 2013 and increased $24.4 million, or 6%, in 2012. The decrease in 2013 is driven primarily by impacts of the Divestiture Transaction and reductions in expenses related to 3G equipment support and network costs, offset by increases in charges related to 4G LTE equipment and network costs. The increase in 2012 is driven primarily by an increase in the number of cell sites within U.S. Cellular's network and costs related to the deployment and operation of LTE networks.

- Customer usage expenses decreased by $57.7 million, or 19%, in 2013, and increased by $4.1 million, or 1%, in 2012. The decrease in 2013 is driven by impacts of the Divestiture Transaction and decreases in intercarrier charges as a result of the FCC's Reform Order and certain data costs, partially offset by increases due to network costs for 4G LTE. The increase in 2012 is due primarily to an increase in data capacity and usage, offset by a decline in voice usage as well as reduced intercarrier compensation expenses as a result of the FCC's Reform Order.

U.S. Cellular expects system operations expenses to increase in the future to support the continued growth in cell sites and other network facilities as it continues to add capacity, enhance quality and deploy new technologies as well as to support increases in total customer usage, particularly data usage. However, these increases are expected to be offset to some extent by cost savings generated by shifting data traffic to the 4G LTE network from the 3G network.

Cost of equipment sold

Cost of equipment sold increased $63.1 million, or 7%, in 2013 and $144.1 million, or 18% in 2012. In both years, the increase was driven primarily by an increase in the average cost per wireless device sold (33% in 2013 and 18% in 2012). Average cost per device sold increased due to general customer preference for higher priced 4G LTE smartphones, including the introduction of Apple products in the fourth quarter of 2013. In 2013, total devices sold decreased by 18% partially due to the Divestiture Transaction; in 2012, total devices sold increased by 1%.

U.S. Cellular's loss on equipment, defined as equipment sales revenues less cost of equipment sold, was $674.9 million, $582.7 million and $502.3 million for 2013, 2012 and 2011, respectively. U.S. Cellular expects loss on equipment to continue to be a significant cost in the foreseeable future as wireless carriers continue to use device pricing as a means of competitive differentiation. In addition, U.S. Cellular expects increasing sales of data centric wireless devices to result in higher equipment subsidies over time; these devices generally have higher purchase costs which cannot be recovered through proportionately higher selling prices to customers under the standard contract/subsidy model the industry has operated with for many years. However, U.S. Cellular is beginning to offer new equipment pricing constructs such as device financing to offset a higher proportion of increasing equipment costs.

Selling, general and administrative expenses

Selling, general and administrative expenses include salaries, commissions and expenses of field sales and retail personnel and facilities; telesales department salaries and expenses; agent commissions and related expenses; corporate marketing and merchandise management; and advertising expenses. Selling, general and administrative expenses also include bad debts expense, costs of operating customer care centers and corporate expenses.

Selling, general and administrative expenses decreased by $87.5 million to $1,677.4 million in 2013 and by $4.8 million to $1,764.9 in 2012. Key components of the net changes in Selling, general and administrative expenses were as follows:

2013—

- Selling and marketing expenses decreased by $75.7 million, or 9%, primarily from lower commission expenses, more cost-effective advertising spending and reduced employee and facilities costs as a result of the Divestiture Transaction.

- General and administrative expenses decreased by $11.8 million, or 1%, driven by corporate cost containment and reduction initiatives and reduced spending as a result of the Divestiture Transaction, offset by costs associated with launching the new billing system of $55.8 million and higher bad debts expense of $31.5 million due to higher customer accounts receivable balances resulting from billing issues experienced after the system conversion.

2012—

- Selling and marketing expenses decreased by $24.8 million, or 3%, primarily from more cost-effective advertising spending.

- General and administrative expenses increased by $20.1 million, or 2%, driven by increases in bad debts expense, Federal Universal Service Charge ("FUSC") expense and non-income tax expense. FUSC charges are assessed to customers and also included in Service revenues.

Depreciation, amortization and accretion

Depreciation, amortization and accretion expense increased $195.1 million, or 32%, in 2013, and $35.1 million, or 6%, in 2012 due primarily to the acceleration of depreciation, amortization and accretion in the Divestiture Markets. The impact of the acceleration year over year was $158.5 million in 2013. The accelerated depreciation, amortization and accretion in the Divestiture Markets is expected to conclude in the first quarter of 2014.

(Gain) loss on asset disposals, net

(Gain) loss on asset disposals, net was a loss of $30.6 million in 2013 and $18.1 million in 2012 due primarily to losses resulting from the write-off and disposals of certain network assets.

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

(Gain) loss on sale of business and other exit costs, net was a gain of $246.8 million in 2013, primarily related to the closing of the Divestiture Transaction. The loss of $21.0 million in 2012 was due primarily to employee severance costs and asset write-offs in the Divestiture Markets, partially offset by a $4.2 million gain resulting from the sale of a wireless market in March 2012.

(Gain) loss on license sales and exchanges

(Gain) loss on license sales and exchanges resulted from the sale of the Mississippi Valley non-operating market license for $308.0 million, which resulted in a pre-tax gain of $250.6 million.

RESULTS OF OPERATIONS—TDS TELECOM

TDS conducts its Wireline, Cable and HMS operations through TDS Telecom, a wholly-owned subsidiary. The following table summarizes operating data for Wireline and Cable operations:

As of December 31,	2013	2012	2011
Wireline			
Residential connections			
Voice (1)	352,100	374,700	399,300
Broadband (2)	227,000	229,900	230,600
IPTV	13,800	7,900	4,600
Wireline residential connections	592,900	612,500	634,500
Commercial connections			
Voice (1)	218,400	243,100	271,700
Broadband (2)	27,100	29,700	32,800
managedIP (3)	127,600	94,600	53,500
Wireline commercial connections	373,100	367,400	358,000
Total Wireline connections	966,000	979,900	992,500
Total residential revenue per connection (4)	$ 40.53	$ 39.65	$ 38.86
Residential broadband penetration (5)	66 %	63 %	60 %
Cable			
Cable connections			
Video (6)	69,200		
Broadband (7)	61,000		
Voice (7)	17,200		
Cable connections	147,400		
Total residential revenue per connection (4)	$ 55.43		

(1) The individual circuit connecting a customer to TDS Telecom's central office facilities.

(2) The number of customers provided high-capacity data circuits via various technologies, including DSL and dedicated internet circuit technologies.

(3) The number of telephone handsets, data lines and IP trunks providing communications using IP networking technology.

(4) Total residential revenue divided by the average number of total residential connections.

(5) Total number of broadband connections divided by total primary residential connections.

(6) Generally, a home or business receiving video programming counts as one video connection. In counting bulk residential or commercial connections, such as an apartment building or a hotel, connections are counted based on the number of units/rooms within the building receiving service.

(7) Broadband and voice connections reflect billable number of lines into a building for high speed data and voice services, respectively.

TDS Telecom Total (Wireline, Cable and HMS Operations)

Components of Operating Income

Year Ended December 31,	2013	Increase/ (Decrease)	Percentage Change	2012	Increase/ (Decrease)	Percentage Change	2011
(Dollars in thousands)							
Operating revenues							
Wireline	$ 726,567	$ (15,181)	(2)%	$ 741,748	$ (26,460)	(3)%	$ 768,208
Cable	35,883	35,883	N/M	-	-	N/M	-
HMS	185,616	72,606	64%	113,010	65,830	>100%	47,180
Intra-company elimination	(1,063)	(811)	>(100)%	(252)	(252)	N/M	-
TDS Telecom operating revenues	947,003	92,497	11%	854,506	39,118	5%	815,388
Operating expenses							
Wireline	661,561	(21,805)	(3)%	683,366	18,760	3%	664,606
Cable	35,927	35,927	N/M	-	-	N/M	-
HMS	205,746	75,096	57%	130,650	78,519	>100%	52,131
Intra-company elimination	(1,063)	(811)	>(100)%	(252)	(252)	N/M	-
TDS Telecom operating expenses	902,171	88,407	11%	813,764	97,027	14%	716,737
TDS Telecom operating income	$ 44,832	$ 4,090	10%	$ 40,742	$ (57,909)	(59)%	$ 98,651

N/M - Not meaningful

Wireline Operations

Components of Operating Income

Year Ended December 31,	2013	Increase/ (Decrease)	Percentage Change	2012	Increase/ (Decrease)	Percentage Change	2011
(Dollars in thousands)							
Operating revenues							
Residential	$ 293,217	$ (3,375)	(1)%	$ 296,592	$ (5,272)	(2)%	$ 301,864
Commercial	232,910	2,436	1%	230,474	(951)	N/M	231,425
Wholesale	200,440	(14,242)	(7)%	214,682	(20,237)	(9)%	234,919
Total operating revenues	726,567	(15,181)	(2)%	741,748	(26,460)	(3)%	768,208
Operating expenses							
Cost of services and products (excluding depreciation, amortization and accretion reported below)	270,466	(3,599)	(1)%	274,065	(636)	N/M	274,701
Selling, general and administrative expenses	220,097	(15,619)	(7)%	235,716	14,602	7%	221,114
Depreciation, amortization and accretion	170,868	(1,658)	(1)%	172,526	4,863	3%	167,663
Loss on asset disposals, net	130	(890)	(87)%	1,020	(108)	(10)%	1,128
Loss on sale of business and other exit costs, net	-	(39)	N/M	39	39	N/M	-
Total operating expenses	661,561	(21,805)	(3)%	683,366	18,760	3%	664,606
Total operating income	$ 65,006	$ 6,624	11%	$ 58,382	$ (45,220)	(44)%	$ 103,602

N/M – Not meaningful

Operating Revenues

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

Residential revenues decreased $3.4 million or 1% to $293.2 million in 2013. A 3% reduction in the number of average residential connections reduced revenues by $7.9 million partially offset by a $5.2 million increase due to growth in average revenue per residential connection of 2%. The growth in average revenue was mainly driven by broadband price increases, growth in customers opting for faster broadband speeds and the growth of customers selecting higher tier IPTV packages.

Residential revenues decreased $5.3 million or 2% to $296.6 million in 2012. Reductions in the number of residential connections of 4% negatively impacted residential revenues by $9.8 million. Customers choosing higher speed data plans primarily drove a 2% increase in average revenue per residential connection in 2012, which increased residential revenues $6.6 million.

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

Commercial revenues increased $2.4 million or 1% to $232.9 million in 2013. A 2% increase in average commercial connections, which was driven by the 49% growth in managedIP as customers converted from traditional voice and data connections, increased revenues by $4.4 million. This increase was partially offset by a 1% decline in average revenue per commercial connection, primarily driven by lower managed IP rates, which decreased revenues $2.7 million.

Commercial revenues decreased $1.0 million to $230.5 million in 2012 due primarily to a $2.5 million decline in business systems sales and charges for directory assistance. A $4.8 million increase in revenue resulting from an increase in commercial connections was partially offset by a $3.2 million decrease in the average revenue per commercial connection primarily driven by lower managed IP rates.

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

Wholesale revenues decreased $14.2 million or 7% to $200.4 million in 2013. Network access revenues decreased $6.8 million in 2013 as a result of changes in support mechanisms and in intercarrier compensation resulting from the Reform Order released by the FCC in November 2011. Wholesale revenues also declined $5.3 million due to a 15% reduction in intra-state minutes-of-use.

Wholesale revenues decreased $20.2 million or 9% to $214.7 million in 2012. Wholesale revenues decreased $10.0 million in 2012 as a result of changes in support mechanisms and in intercarrier compensation resulting from the Reform Order. Revenues received through interstate and intrastate regulatory recovery mechanisms also decreased $5.7 million due to changes in eligible expense recovery thresholds and reductions in the pool earnings. Additionally, Wholesale revenues declined $5.1 million due to a 11% decline in intrastate minutes of use.

Operating Expenses

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

Cost of services and products decreased $3.6 million or 1% to $270.5 million in 2013 due primarily to a $5.4 million decrease in cost of goods sold related to long distance services and promotional giveaways. In addition, carrier interconnection charges decreased $2.3 million as a result of lower access charges that became effective related to the Reform Order. Employee expense decreased $1.1 million due to a reduction in employees. Offsetting the decreases were increases in charges related to IPTV expansion.

Cost of services and products of $274.1 million in 2012 were flat compared to 2011. Increases in employee related costs, charges related to IPTV expansion and network maintenance costs were mostly offset by decreased long-distance costs, lower circuit charges, lower purchased network services, and a decrease in reciprocal compensation expense related to the FCC Reform Order which mandated rate reductions that became effective in July of 2012.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased $15.6 million or 7% to $220.1 million in 2013 due primarily to decreases in employee expenses, Federal USF contributions due to lower revenues, bad debts, and property taxes.

Selling, general and administrative expenses increased $14.6 million or 7% to $235.7 million in 2012. Discrete benefits recorded in 2011 including receipt of insurance proceeds, the refund of certain prior year regulatory contributions and the settlement of a legal dispute, which decreased 2011 Selling, general and administrative expenses by $7.7 million. These discrete benefits in 2011 were the primary cause of the overall expense increase from 2011 to 2012. Additionally, higher employee related and contractor costs and Federal USF contributions added to the increase in 2012.

Cable Operations

Components of Operating Income

Year Ended December 31,	2013 (1)
(Dollars in thousands)	
Operating revenues	
Residential	$ 29,016
Commercial	6,867
Total operating revenues	35,883
Operating expenses	
Cost of services and products (excluding depreciation, amortization and accretion reported below)	17,274
Selling, general and administrative expenses	11,054
Depreciation, amortization and accretion	7,571
Loss on asset disposals, net	28
Total operating expenses	35,927
Total operating income (loss)	$ (44)

(1) Represents the operations of Baja from August 1, 2013 (date of acquisition) to December 31, 2013.

Operating Revenues

Residential revenues consist of video, broadband and voices services to Cable’s residential customer base.

Baja had 104,900 residential connections which generated revenues of $29.0 million since the acquisition of Baja on August 1, 2013.

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

Baja had 42,500 commercial connections which generated revenues of $6.9 million since the acquisition of Baja.

Operating Expenses

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

Cost of services and products (excluding Depreciation, amortization and accretion) of $17.3 million were incurred for programming costs and expenses related to the delivery and support of services since the acquisition of Baja.

Selling, general and administrative expenses

Selling, general and administrative expenses of $11.1 million include legal and consulting costs of $2.0 million related to the acquisition.

Depreciation, amortization and accretion expense

Depreciation, amortization and accretion expense of $7.6 million was incurred since the acquisition of Baja. Amortization of the acquired customer list and trade name contributed $3.0 million of expense.

HMS Operations

Components of Operating Income

Year Ended December 31,	2013	Increase/ (Decrease)	Percentage Change	2012	Increase/ (Decrease)	Percentage Change	2011
(Dollars in thousands)							
Operating revenues	$ 185,616	$ 72,606	64%	$ 113,010	$ 65,830	>100%	$ 47,180
Operating expenses							
Cost of services and products (excluding depreciation, amortization and accretion reported below)	136,414	60,633	80%	75,781	52,279	>100%	23,502
Selling, general and administrative expenses	44,945	10,752	31%	34,193	18,546	>100%	15,647
Depreciation, amortization and accretion	24,262	3,694	18%	20,568	7,701	60%	12,867
Loss on asset disposals, net	125	17	16%	108	(7)	(6)%	115
Total operating expenses	205,746	75,096	57%	130,650	78,519	>100%	52,131
Total operating income (loss)	$ (20,130)	$ (2,490)	(14)%	$ (17,640)	$ (12,689)	>(100)%	$ (4,951)

Operating Revenues

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

Operating revenues increased $72.6 million to $185.6 million in 2013. The acquisitions of Vital in June of 2012 and MSN in October of 2013 contributed $64.3 million of incremental revenues. The remaining increase was due to 10% growth in recurring services primarily consisting of colocation, cloud and hosted managed services, and application management.

Operating revenues increased $65.8 million to $113.0 million in 2012. The acquisitions of OneNeck IT Services in June of 2011 and Vital in June of 2012 contributed $64.1 million of incremental revenues.

Operating Expenses

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

Cost of services and products increased $60.6 million to $136.4 million in 2013 and increased $52.3 million to $75.8 million in 2012. Acquisitions increased Cost of services and products $52.8 million and $47.7 million in 2013 and 2012, respectively. Employee related expense also increased in 2013 by $5.7 million in addition to increased data center costs to support revenue growth.

Selling, general and administrative expense

Selling, general and administrative expense increased $10.8 million to $44.9 million in 2013 and increased $18.5 million to $34.2 million in 2012. Acquisitions increased Selling, general and administrative expense $10.6 million and $15.1 million in 2013 and 2012, respectively. Additional expenses were incurred in both 2013 and 2012 as TDS Telecom developed the infrastructure and products and services to support growth of the HMS operations.

Depreciation, amortization and accretion expense

Depreciation, amortization and accretion expense increased $3.7 million to $24.3 million in 2013 and increased $7.7 million to

$20.6 million in 2012 due primarily to acquisitions. Customer list and trade name amortization contributed $2.2 million and $4.4 million of the increase in 2013 and 2012, respectively.

INFLATION

Management believes that inflation affects TDS' business to no greater or lesser extent than the general economy.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In general, recently issued accounting pronouncements did not have and are not expected to have a significant effect on TDS' financial condition and results of operations.

See Note 1 — Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for information on recently issued accounting pronouncements.

FINANCIAL RESOURCES

TDS operates a capital- and marketing-intensive business. TDS utilizes cash on hand, cash from operating activities, cash proceeds from divestitures and disposition of investments, short-term credit facilities and long-term debt financing to fund its acquisitions (including licenses), construction costs, operating expenses and share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions, capital expenditures and other factors. The table below and the following discussion in this Financial Resources section summarize TDS' cash flow activities in 2013, 2012 and 2011.

(Dollars in thousands)	2013	2012	2011
Cash flows from (used in)			
Operating activities	$ 494,610	$ 1,105,172	$ 1,255,711
Investing activities	(260,653)	(998,069)	(866,089)
Financing activities	(144,424)	70,103	(168,030)
Net increase in cash and cash equivalents	$ 89,533	$ 177,206	$ 221,592

Cash Flows from Operating Activities

Cash flows from operating activities were $494.6 million in 2013 and $1,105.2 million in 2012. Significant items to note are as follows:

- Net income increased by $44.2 million. This increase resulted primarily from the gains recognized as a result of the closing of the Divestiture Transaction, the NY1& NY2 Deconsolidation and the Mississippi Valley license sale. These gains were partially offset by a decrease in Operating revenues, higher cost of equipment sold, and an increase in non-cash expenses, including depreciation expense.

- Net income tax payments of $175.6 million were recorded in 2013 compared to net income tax refunds of $62.0 million in 2012. The 2013 tax payments were due primarily to the gain recognized as a result of the closing of the Divestiture Transaction and the Mississippi Valley license sale. Federal tax refunds of $71.5 million were received in 2012 primarily related to a federal net operating loss in 2011 largely attributable to 100% bonus depreciation applicable to qualified capital expenditures. TDS carried back this federal net operating loss to prior tax years and received these refunds in 2012 for carrybacks to 2009 and 2010 tax years.

- Changes in Accounts receivable combined with the impact of Bad debts expense required $188.7 million and $6.4 million in 2013 and 2012, respectively. Changes in Accounts receivable were driven primarily by billing delays encountered as a result of the conversion to a new U.S. Cellular billing system in the third quarter of 2013, which caused Accounts receivable to increase at December 31, 2013. Given these billing delays and the corresponding increase in Accounts receivable, U.S. Cellular believes it has made an adequate provision for allowance for doubtful accounts at December 31, 2013. However, such provision is an estimate, and U.S. Cellular's actual experience with uncollectible accounts in future periods could materially differ from the amounts provided in the allowance for doubtful accounts at December 31, 2013. Any such difference could have a material adverse impact on future results of operations and cash flow.

- Changes in Inventory required $83.5 million in 2013 and required $29.9 million in 2012. This change was due primarily to higher costs per unit related to 4G LTE smartphones.

- Changes in Accounts payable provided $86.0 million in 2013 and required $12.3 million in 2012. Changes in Accounts payable were driven primarily by payment timing differences related to operating expenses, capital expenditures and device purchases.

Cash flows from operating activities were $1,105.2 million in 2012 and $1,255.7 million in 2011. Significant items to note are as follows:

- Net income decreased by $127.6 million. This decrease resulted primarily from increases in Cost of services and products and non-cash expenses, including depreciation expense.

- Net income tax refunds of $62.0 million were recorded in 2012 compared to net income tax refunds of $67.0 million in 2011. Tax refunds received in 2012 were primarily for federal net operating loss carrybacks from the 2011 tax year to the 2009 and 2010 tax years. Tax refunds received in 2011 primarily represented federal refunds related to overpayment of 2010 taxes.

- Changes in Accounts receivable combined with the impact of Bad debts expense required $6.4 million and $26.8 million in 2012 and 2011, respectively. Accounts receivable balances fluctuate based on the timing of customer payments, promotions and other factors.

- Changes in Inventory required $29.9 million in 2012 and $13.4 million in 2011. This change was due primarily to higher inventory levels and a change in inventory mix, resulting in a higher cost per unit.

- Changes in Accounts payable required $12.3 million in 2012 and provided $29.3 million in 2011. Changes in Accounts payable were primarily driven by payment timing differences related to network equipment and device purchases.

- Changes in Other assets and liabilities required $30.5 million and $4.4 million in 2012 and 2011, respectively. This change was due primarily to an increase in LTE-related deferred charges.

Cash Flows from Investing Activities

TDS makes substantial investments to acquire wireless licenses and properties and to construct and upgrade telecommunications networks and facilities as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities have required substantial investments in potentially revenue-enhancing and cost-reducing upgrades to TDS' networks.

Capital expenditures (i.e., additions to property, plant and equipment and system development expenditures) totaled $909.7 million in 2013, $1,004.6 million in 2012 and $987.2 million in 2011. Cash used for additions to property, plant and equipment is reported in the Consolidated Statement of Cash Flows, and excludes amounts accrued in Accounts receivable and Accounts payable for capital expenditures at December 31 of the current year and includes amounts received and/or paid in the current period that were accrued at December 31 of the prior year. Cash used for additions to property, plant and equipment totaled $883.8 million, $995.5 million and $971.8 million in 2013, 2012 and 2011, respectively. These expenditures were made to provide for customer and usage growth (in recent periods, particularly with respect to data usage growth), to upgrade service and to take advantage of service-enhancing and cost-reducing technological developments in order to maintain competitive services.

- U.S. Cellular's capital expenditures totaled $737.5 million in 2013, $836.7 million in 2012 and $782.5 million in 2011 representing expenditures made to construct new cell sites, build out 4G LTE networks in certain markets, increase capacity in existing cell sites and switches, develop new and enhance existing office systems such as the new Billing and Operational Support System ("B/OSS") and customer relationship management platforms, and construct new and remodel existing retail stores.

- TDS Telecom's capital expenditures totaled $164.9 million, $173.9 million, and $191.2 million in 2013, 2012, and 2011, respectively. Capital expenditures for Wireline operations totaled $140.0 million in 2013, $158.6 million in 2012 and $164.2 million in 2011 primarily representing expenditures to upgrade plant and equipment to provide enhanced services. Capital expenditures for Cable operations totaled $8.4 million in 2013. Capital expenditures for HMS operations totaled $16.5 million in 2013, $15.3 million in 2012 and $27.0 million in 2011 representing expenditures to expand data center facilities and the purchase of IT-related equipment to deliver products and services.

Cash payments for acquisitions in 2013, 2012 and 2011 were as follows:

Cash Payments for Acquisitions	2013	2012	2011
(Dollars in thousands)			
U.S. Cellular licenses	$ 16,540	$ 122,690	$ 4,406
U.S. Cellular business	-	-	19,367
TDS Telecom HMS businesses	33,961	40,692	95,865
TDS Telecom cable business	264,069	-	-
Non-Reportable Segment (1)	-	-	(14,130)
Total	$ 314,570	$ 163,382	$ 105,508

(1) Cash held by Airadigm at acquisition. TDS acquired 63% of Airadigm on September 23, 2011.

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

Cash Received from Divestitures	2013	2012	2011
(Dollars in thousands)			
U.S. Cellular licenses	$ 311,989	$ -	$ -
U.S. Cellular businesses	499,131	49,932	-
TDS Telecom wireline business	-	250	-
Total	$ 811,120	$ 50,182	$ -

U.S. Cellular received $480.0 million in cash at the close of the Divestiture Transaction in May 2013. In addition, U.S. Cellular received $10.6 million in reimbursements for certain network decommissioning costs, network site lease rent and termination costs, network access termination costs, and employee termination benefits for specified engineering employees (the "Sprint Cost Reimbursement") in 2013.

On October 4, 2013, U.S. Cellular sold the majority of its Mississippi Valley unbuilt license for $308.0 million. This sale resulted in a $250.6 million gain which was recorded in the fourth quarter of 2013.

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. The sale will result in an estimated pre-tax gain of $76.2 million. This transaction is subject to regulatory approval and is expected to close in the first quarter of 2014.

TDS invested $120.0 million and $180.9 million in 2012 and 2011, respectively, in U.S. Treasury Notes and corporate notes with maturities greater than three months from the acquisition date. TDS realized cash proceeds of $115.0 million, $243.4 million and $393.2 million in 2013, 2012 and 2011, respectively, related to the maturities of its investments in U.S. Treasury Notes, corporate notes and certificates of deposit.

Cash Flows from Financing Activities

Cash flows from financing activities include repayments of and proceeds from short-term and long-term debt, dividends to shareholders, distributions to noncontrolling interests, cash used to repurchase Common Shares and cash proceeds from reissuance of Common Shares pursuant to stock-based compensation plans.

In November 2012, TDS issued $195.0 million of 5.875% Senior Notes due 2061, and paid related debt issuance costs of $7.1 million.

In September 2011, Airadigm paid $32.7 million to the FCC in satisfaction of amounts due pursuant to Airadigm's plan of reorganization. See Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to this acquisition.

In May 2011, U.S. Cellular issued $342.0 million of 6.95% Senior Notes due 2060, and paid related debt issuance costs of $11.0 million. The net proceeds from the 6.95% Senior Notes were used primarily to redeem $330.0 million of U.S. Cellular's 7.5% Senior Notes in June 2011. The redemption price of the 7.5% Senior Notes was equal to 100% of the principal amount plus accrued and unpaid interest thereon to the redemption date.

In March 2011, TDS issued $300.0 million of 7% Senior Notes due 2060, and paid related debt issuance costs of $9.7 million. The net proceeds from the 7% Senior Notes were primarily used to redeem $282.5 million of TDS' 7.6% Series A Notes in May 2011. The redemption price of the 7.6% Series A Notes was equal to 100% of the outstanding aggregate principal amount, plus accrued and unpaid interest thereon to the redemption date.

On June 25, 2013, U.S. Cellular paid a special cash dividend of $5.75 per share, for an aggregate amount of $482.3 million, to all holders of U.S. Cellular Common Shares and Series A Common Shares as of June 11, 2013. Of the $482.3 million paid, TDS received $407.1 million while noncontrolling public shareholders received $75.2 million. The cash paid to noncontrolling public shareholders is presented as U.S. Cellular dividends paid to noncontrolling public shareholders on the Consolidated Statement of Cash Flows.

TDS repurchased Common Shares for $9.7 million and $20.0 million in 2013 and 2012, respectively, and Special Common Shares for $21.5 million in 2011. U.S. Cellular repurchased Common Shares for $18.5 million, $20.0 million and $62.3 million in 2013, 2012 and 2011, respectively. See Note 15 — Common Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information related to these transactions.

Free Cash Flow

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

(Dollars in thousands)	2013	2012	2011
Cash flows from operating activities	$ 494,610	$ 1,105,172	$ 1,255,711
Cash used for additions to property, plant and equipment	(883,797)	(995,517)	(971,759)
Free cash flow	$ (389,187)	$ 109,655	$ 283,952

See Cash flows from Operating Activities and Cash flows from Investing Activities for details on the changes to the components of Free cash flow.

LIQUIDITY AND CAPITAL RESOURCES

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

U.S. Cellular's profitability historically has been lower in the fourth quarter as a result of significant marketing and promotional activity during the holiday season. Changes in these or other economic factors could have a material adverse effect on demand for TDS' products and services and on TDS' financial condition and results of operations.

TDS cannot provide assurances that circumstances that could have a material adverse effect on its liquidity or capital resources will not occur. Economic conditions, changes in financial markets or other factors could restrict TDS' liquidity and availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its capital expenditure, acquisition or share repurchase programs. Such reductions could have a material adverse effect on TDS' business, financial condition or results of operations.

The following table summarizes TDS' and U.S. Cellular's cash and investments as of December 31, 2013.

(Dollars in thousands)	TDS	U.S. Cellular (1)
Cash and cash equivalents	$ 830,014	$ 342,065
Short-term investments	$ 50,104	$ 50,104

(1) Also included as a component of the TDS column.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments with original maturities of three months or less. The primary objective of TDS' Cash and cash equivalents investment activities is to preserve principal. At December 31, 2013, the majority of TDS' Cash and cash equivalents was held in bank deposit accounts and in money market funds that invest exclusively in U.S. Treasury Notes or in repurchase agreements fully collateralized by such obligations. TDS monitors the financial viability of the money market funds and direct investments in which it invests and believes that the credit risk associated with these investments is low.

Short-term and Long-term Investments

Short-term investments consist of U.S. Treasury Notes which are designated as held-to-maturity investments and are recorded at amortized cost in the Consolidated Balance Sheet. For these investments, TDS' objective is to earn a higher rate of return on funds that are not anticipated to be required to meet liquidity needs in the near term, while maintaining a low level of investment risk. See Note 2 — Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information on Short-term investments. As of December 31, 2013, TDS does not hold Long-term investments.

Revolving Credit Facilities

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

In connection with U.S. Cellular's revolving credit facility, TDS and U.S. Cellular entered into a subordination agreement dated December 17, 2010 together with the administrative agent for the lenders under U.S. Cellular's revolving credit facility. At December 31, 2013, no U.S. Cellular debt was subordinated pursuant to this subordination agreement.

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

As of December 31, 2013, TDS' and U.S. Cellular's senior debt credit ratings from nationally recognized credit rating agencies remained at investment grade.

In June 2013, U.S. Cellular provided $17.4 million in letters of credit to the FCC in connection with U.S. Cellular's winning bids in Auction 901. See Note 19 — Supplemental Cash Flow Disclosures in the Notes to Consolidated Financial Statements for additional information on Auction 901.

The continued availability of the revolving credit facilities requires TDS and U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing. TDS and U.S. Cellular believe that they were in compliance as of December 31, 2013 with all of the financial covenants and requirements set forth in their revolving credit facilities. TDS also has certain other non-material credit facilities from time to time.

See Note 10 — Debt in the Notes to Consolidated Financial Statements for additional information regarding the revolving credit facilities.

Long-Term Financing

TDS and its subsidiaries' long-term debt indentures do not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in TDS' credit rating. However, a downgrade in TDS' credit rating could adversely affect its ability to obtain long-term debt financing in the future. TDS believes that it and its subsidiaries were in compliance as of December 31, 2013 with all financial covenants and other requirements set forth in its long-term debt indentures. TDS and U.S. Cellular have not failed to make nor do they expect to fail to make any scheduled payment of principal or interest under such indentures.

The long-term debt principal payments due for the next four years represent less than 1% of the total long-term debt obligation at December 31, 2013. Refer to Market Risk — Long-Term Debt for additional information regarding required principal payments and the weighted average interest rates related to TDS' Long-term debt.

TDS and U.S. Cellular, at their discretion, may from time to time seek to retire or purchase their outstanding debt through cash purchases and/or exchanges for other securities, in open market purchases, privately negotiated transactions, tender offers, exchange offers or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

TDS and U.S. Cellular each have an effective shelf registration statement on Form S-3 to issue senior or subordinated debt securities. The proceeds from any such issuances may be used for general corporate purposes, including the possible reduction of other long-term debt; in connection with acquisition, construction and development programs; the reduction of short-term debt; for working capital; to provide additional investments in subsidiaries; or the repurchase of shares. The TDS shelf registration permits TDS to issue at any time and from time to time senior or subordinated debt securities in one or more offerings in an indeterminate amount. The U.S. Cellular shelf registration statement permits U.S. Cellular to issue at any time and from time to time senior or subordinated debt securities in one or more offerings up to an aggregate principal amount of $500 million. The ability of TDS or U.S. Cellular to complete an offering pursuant to such shelf registration statements is subject to market conditions and other factors at the time.

See Note 10 — Debt in the Notes to Consolidated Financial Statements for additional information on Long-term financing.

Capital Expenditures

U.S. Cellular's capital expenditures for 2014 are expected to be approximately $640 million. These expenditures are expected to be for the following general purposes:

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

TDS Telecom's capital expenditures for 2014 are expected to be approximately $200 million. These expenditures are expected to be for the following general purposes:

- Fiber expansion in Wireline markets to support IPTV and super high speed data;
- Success-based spending to sustain managedIP, IPTV and HMS growth;
- Expansion of HMS data center facilities;
- Plant upgrades and success-based spending at Baja; and
- Process and productivity initiatives.

TDS plans to finance its capital expenditures program for 2014 using primarily Cash flows from operating activities, and as necessary, existing cash balances and short-term investments.

Acquisitions, Divestitures and Exchanges

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

TDS also may be engaged from time to time in negotiations relating to the acquisition, divestiture or exchange of companies, properties, wireless spectrum and other possible businesses. In general, TDS may not disclose such transactions until there is a definitive agreement. See Note 5 — Acquisitions, Divestitures and Exchanges and Note 7 — Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information related to significant transactions.

Variable Interest Entities

TDS consolidates certain entities because they are "variable interest entities" under accounting principles generally accepted in the United States of America ("GAAP"). See Note 13 — Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information related to these variable interest entities. TDS may elect to make additional capital contributions and/or advances to these variable interest entities in future periods in order to fund their operations.

Common Share Repurchase Programs

In the past year, TDS and U.S. Cellular have repurchased and expect to continue to repurchase their Common Shares, in each case subject to any available repurchase program. For additional information related to the current TDS and U.S. Cellular repurchase authorizations and repurchases made during 2013, 2012 and 2011, see Note 15 — Common Shareholders' Equity in the Notes to Consolidated Financial Statements and Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Contractual and Other Obligations

At December 31, 2013, the resources required for contractual obligations were as follows:

		Payments Due by Period			
(Dollars in millions)	**Total**	**Less Than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More Than 5 Years**
Long-term debt obligations (1)	$ 1,728.7	$ 1.5	$ 3.9	$ -	$ 1,723.3
Interest payments on long-term debt obligations	4,336.2	116.1	232.1	231.8	3,756.2
Operating leases (2)	1,510.2	175.2	285.0	201.0	849.0
Capital leases	8.4	0.6	1.2	1.2	5.4
Purchase obligations (3)(4)	1,959.6	675.3	1,058.7	141.3	84.3
	$ 9,543.1	$ 968.7	$ 1,580.9	$ 575.3	$ 6,418.2

(1) Includes current and long-term portions of debt obligations. The total long-term debt obligation differs from Long-term debt in the Consolidated Balance Sheet due to capital leases and the $11.6 million unamortized discount related to U.S. Cellular's 6.7% Senior Notes. See Note 10 — Debt in the Notes to Consolidated Financial Statements for additional information.

(2) Includes future lease costs related to telecommunications plant facilities, office space, retail sites, cell sites, data centers and equipment. See Note 12 — Commitments and Contingencies in the Notes to Consolidated Financial Statements for additional information.

(3) Includes obligations payable under non-cancellable contracts, commitments for network facilities and services, agreements for software licensing, long-term marketing programs, and an agreement with Apple to purchase Apple iPhone products. As described more fully in Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements, U.S. Cellular expects to incur network-related exit costs in the Divestiture Markets as a result of the transaction, including: (i) costs to decommission cell sites and mobile telephone switching office ("MTSO") sites, (ii) costs to terminate real property leases and (iii) costs to terminate certain network access arrangements in the subject markets. The impacts of these exit activities on TDS' purchase obligation are reflected in the table above only to the extent that agreements were consummated at December 31, 2013.

(4) Does not include reimbursable amounts TDS Telecom will provide to complete projects under the American Recovery and Reinvestment Act of 2009. TDS Telecom will receive $105.1 million in federal grants and will provide $30.9 million of its own funds to complete 44 projects. As of December 31, 2013, TDS Telecom has expended $24.8 million of the $30.9 million on these projects. Under the terms of the grants, the projects must be completed by June of 2015.

The table above excludes liabilities related to "unrecognized tax benefits" as defined by GAAP because TDS is unable to predict the period of settlement of such liabilities. Such unrecognized tax benefits were $30.4 million at December 31, 2013. See Note 3 — Income Taxes in the Notes to Consolidated Financial Statements for additional information on unrecognized tax benefits.

Agreements

As previously disclosed, on August 17, 2010, TDS 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, TDS 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 $183.9 million (subject to certain potential adjustments) over the period from commencement of the SLMA through the first half of 2014. As of December 31, 2013, $136.8 million had been paid to Amdocs.

Apple iPhone Products Purchase Commitment

In March 2013, U.S. Cellular entered into an agreement with Apple to purchase certain minimum quantities of iPhone products over a three-year period beginning in November 2013. The minimum quantity of iPhone products to be purchased during the first contract year is fixed and is subject to adjustment for the second and third contract years based on the percentage growth in smartphone sales in the United States for the immediately preceding calendar year. Based on current forecasts, TDS estimates that the remaining contractual purchase commitment as of December 31, 2013 is approximately $950 million. At this time, TDS expects to meet its contractual commitment with Apple.

Off-Balance Sheet Arrangements

TDS had no transactions, agreements or other contractual arrangements with unconsolidated entities involving "off-balance sheet arrangements," as defined by SEC rules, that had or are reasonably likely to have a material current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Dividends

TDS paid quarterly dividends per outstanding share of $0.1275 in 2013, $0.1225 in 2012 and $0.1175 in 2011. TDS increased the dividend per share to $0.1340 in the first quarter of 2014. The dividends per share amount for 2011 have not been retroactively adjusted to reflect the impact of the Share Consolidation Amendment. See Note 15 — Common Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information. TDS has no current plans to change its policy of paying dividends.

On June 25, 2013, U.S. Cellular paid a special cash dividend of $5.75 per share, for an aggregate amount of $482.3 million, to all holders of U.S. Cellular Common Shares and Series A Common Shares as of June 11, 2013. Of the $482.3 million paid, TDS received $407.1 million while noncontrolling public shareholders received $75.2 million.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

TDS prepares its consolidated financial statements in accordance with GAAP. TDS' significant accounting policies are discussed in detail in Note 1 — Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements.

Management believes the application of the following critical accounting policies and the estimates required by such application reflect its most significant judgments and estimates used in the preparation of TDS' consolidated financial statements. Management has discussed the development and selection of each of the following accounting policies and related estimates and disclosures with the Audit Committee of TDS' Board of Directors.

Goodwill, Licenses and Franchise rights

See the Goodwill, Licenses and Franchise rights Impairment Assessment section of Note 1 — Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for information on Goodwill, Licenses and Franchise rights impairment testing policies and methods. TDS performs annual impairment testing of Goodwill, Licenses and Franchise rights, as required by GAAP, in the fourth quarter of its fiscal year, based on fair values and net carrying values determined as of November 1.

See Note 6 — Intangible Assets in the Notes to Consolidated Financial Statements for additional information related to Goodwill, Licenses and Franchise rights activity in 2013 and 2012.

Goodwill – U.S. Cellular

U.S. Cellular tests Goodwill for impairment at the level of reporting referred to as a reporting unit. For purposes of impairment testing of Goodwill in 2013, U.S. Cellular identified four reporting units based on geographic service areas (all of which are included in TDS' wireless reportable operating segment). For purposes of the impairment testing of Goodwill in 2012, U.S. Cellular identified five reporting units based on geographic service areas. The change in reporting units resulted from the NY1 & NY2 Deconsolidation more fully described in Note 7 — Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements. There were no changes to U.S. Cellular's overall Goodwill impairment testing methodology between November 1, 2013 and November 1, 2012.

A discounted cash flow approach was used to value each reporting unit, using 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 U.S. Cellular specific assumptions. The most significant assumptions made in this process were the revenue growth rate (shown as a ten year compound annual growth rate in the table below), the terminal revenue growth rate, the discount rate and capital expenditures as a percentage of revenue (shown as a simple average in the table below). The averages below are based on ten year projection periods. These assumptions were as follows for November 1, 2013 and 2012:

Key Assumptions	November 1, 2013	November 1, 2012
Revenue growth rate	2.2 %	2.2 %
Terminal revenue growth rate	2.0 %	2.0 %
Discount rate	10.0 %	11.0 %
Capital expenditures as a percentage of revenue	16.0 %	15.2 %

The carrying value of each U.S. Cellular reporting unit at TDS as of November 1, 2013 was as follows:

Reporting Unit	Carrying Value at TDS (1)
(Dollars in millions)	
Central Region	$ 2,753
Mid-Atlantic Region	836
New England Region	269
Northwest Region	328
Total	$ 4,186

(1) Under previous business combination guidance in effect prior to January 1, 2009, TDS had recorded Goodwill as a result of accounting for U.S. Cellular's purchases of U.S. Cellular Common Shares as step acquisitions using purchase accounting. As a result, the carrying values of the reporting units differ between U.S. Cellular and TDS. The carrying value of the reporting units at U.S. Cellular was $4,287 million at November 1, 2013.

As of November 1, 2013, the fair values of the reporting units exceeded their respective carrying values by amounts ranging from 18.4% to 33.4%. Therefore, no impairment of Goodwill existed. Given that the fair values of the respective reporting units exceed their respective carrying values, provided all other assumptions remained the same, the discount rate would have to increase to a range of 11.4% to 12.7% to yield estimated fair values of reporting units that equal their respective carrying values at November 1, 2013. Further, assuming all other assumptions remained the same, the terminal growth rate assumptions would need to decrease to amounts ranging from negative 5.3% to negative 1.3% to yield estimates of fair value equal to the carrying values of the respective reporting units at November 1, 2013.

Goodwill – TDS Telecom

TDS Telecom has recorded Goodwill as a result of the acquisition of ILEC, HMS and cable companies. For purposes of Goodwill impairment testing, TDS Telecom has three reporting units: ILEC, HMS and Cable.

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

Prior to the third quarter of 2013, HMS was comprised of three reporting units: OneNeck IT Services, TEAM Technologies, LLC/VISI Incorporated ("TEAM/VISI") and Vital. Due to changes in the management of the HMS operations and related changes in internal financial reporting that culminated in the third quarter of 2013, the three separate HMS reporting units were combined into one HMS reporting unit. This change in reporting units required TDS to perform an interim impairment test of the Goodwill in the HMS reporting unit(s) in the third quarter of 2013. TDS performed the Step 1 Goodwill impairment test as of August 1, 2013 for the three historical HMS reporting units of OneNeck IT Services, TEAM/VISI, and Vital and the newly combined HMS reporting unit. In all four of these HMS-related Step 1 Goodwill impairment tests, TDS determined that the fair value of each of the reporting units exceeded its respective carrying value, and accordingly, no Goodwill impairment resulted.

In October 2013, TDS acquired MSN. MSN is included in the HMS reporting unit for purposes of Goodwill impairment testing. However, as MSN was acquired in the fourth quarter, the assumptions discussed below relate solely to the legacy HMS reporting unit. Consistent with fair value principles, as MSN was recently purchased from a third party in an arms-length transaction, management believes that MSN's purchase price of $44 million reflects fair value and carrying value at November 1, 2013. This amount was included in the overall HMS reporting unit fair value and carrying value.

The Cable reporting unit consists of Baja, which was acquired in August 2013. A qualitative assessment, as defined by GAAP, of the reporting unit was completed as of November 1, 2013. The qualitative assessment, which analyzed company, industry and economic trends, concluded that it was more likely than not that the fair value of this reporting unit was at least equal to its carrying value, and accordingly no Goodwill impairment resulted.

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

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

The following tables represent key assumptions used in estimating the fair value of the ILEC and HMS (excluding MSN, as previously discussed) reporting units as of November 1, 2013 and 2012, the annual impairment testing dates. The ILEC and HMS averages below are based on five and ten year projection periods, respectively. There are uncertainties associated with these key assumptions, and potential events and/or circumstances that could have a negative effect on the key assumptions, which are described below.

The assumptions were as follows for November 1, 2013:

Key Assumptions	ILEC	HMS
Revenue growth rate	(0.5) %	10.8 %
Terminal revenue growth rate	0.0%	2.5 %
Discount rate	7.5 %	12.5 %
Capital expenditures as a percentage of revenue	15.0 %	11.2 %

The assumptions were as follows for November 1, 2012:

Key Assumptions	ILEC	HMS
Revenue growth rate	(0.3) %	6.3-16.3%
Terminal revenue growth rate	0.0%	1.5-3.0%
Discount rate	7.0 %	11.0-13.0%
Capital expenditures as a percentage of revenue	15.3 %	0.4-21.9%

Revenue growth rates

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

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

- Market participant growth rates

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

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

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

Discount rates

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

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

The discount rate is dependent upon the cost of capital of other industry market participants. To the extent that the weighted average cost of capital of industry participants increases, this would decrease the estimated fair value of the reporting units. The weighted average cost of capital may increase if borrowing costs rise, market participants weight more of their capital structure towards equity (vs. debt), or other elements affecting the estimated cost of equity increase.

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

Capital expenditures as a percentage of revenue

Capital expenditures for the ILEC reporting unit primarily consist of upgrades to plant and equipment in the IPTV markets, general network support, IT infrastructure and the completion of broadband stimulus projects. To the extent costs associated with these capital expenditures increase at a rate higher than expected and disproportionate to forecasted future revenues, this could negatively impact future cash flows.

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

Results

The following represents the carrying values of the reporting units tested for impairment as of November 1, 2013, and the results of the Step 1 Goodwill impairment tests.

Reporting unit	Carrying value (in millions)	Percentage by which the estimated fair value of the reporting unit exceeded its carrying value
ILEC	$ 1,297	25.5 %
HMS	$ 223	16.7 %

As of November 1, 2013, the fair value of the ILEC reporting unit exceeded its carrying value; therefore, no impairment of Goodwill existed. Given that the fair value of the reporting unit exceeded its respective carrying value, provided all other assumptions remained the same, the discount rate would have to increase to 9.7% for the discounted cash flow approach to yield an estimated fair value of the ILEC reporting unit that equals its carrying value at November 1, 2013. Further, provided all other assumptions remained the same, the terminal revenue growth rate assumption would need to decrease to negative 3.0%, for the discounted cash flow approach to yield an estimate of fair value equal to the carrying value of the ILEC reporting unit at November 1, 2013.

As of November 1, 2013 the fair value of the HMS reporting unit exceeded its carrying value; therefore, no impairment of Goodwill existed. Given that the fair value of the reporting unit exceeded its respective carrying value, provided all other assumptions remained the same, the discount rate would have to increase to 13.6% for the discounted cash flow approach to yield estimated fair value of the HMS reporting unit (excluding MSN, as previously discussed) that equals its carrying value at November 1, 2013. Further, provided all other assumptions remained the same, the terminal revenue growth rate assumption would need to decrease to negative 0.2%, for the discounted cash flow approach to yield an estimate of fair value equal to the carrying value of the HMS reporting unit (excluding MSN, as previously discussed) at November 1, 2013.

Licenses

U.S. Cellular tests licenses for impairment at the level of reporting referred to as a unit of accounting. For purposes of its impairment testing of licenses as of November 1, 2013, U.S. Cellular separated its FCC licenses into eleven units of accounting based on geographic service areas. As of November 1, 2012, U.S. Cellular separated its FCC licenses into thirteen units of accounting based on geographic service areas. The change in units of accounting resulted from (i) the Divestiture Transaction and the Mississippi Valley non-operating market license sale, both of which are more fully described in Note 5 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements and (ii) the NY1 & NY2 Deconsolidation more fully described in Note 7 — Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements. In both 2013 and 2012, seven of the units of accounting represented geographic groupings of licenses which, because they were not being utilized and, therefore, were not expected to generate cash flows from operating activities in the foreseeable future, were considered separate units of accounting for purposes of impairment testing.

Developed operating market licenses ("built licenses")

U.S. Cellular applies the build-out method to estimate the fair values of built licenses. The most significant assumptions applied for purposes of the November 1, 2013 and 2012 licenses impairment assessments were as follows:

Key Assumptions	**November 1, 2013**	**November 1, 2012**
Build-out period	5 years	7 years
Discount rate	8.5 %	8.5 %
Terminal revenue growth rate	2.0 %	2.0 %
Terminal capital expenditures as a percentage of revenue	13.6 %	13.2 %
Customer penetration rates	12.5-16.7%	13.3-17.3%

The shorter build-out period in 2013 reflects a change in management's expectations of the time required to build out the U.S. Cellular network and is based on recent company-specific experience and industry observation.

The discount rate used in the valuation of licenses is less than the discount rate used in the valuation of reporting units for purposes of goodwill impairment testing. The discount rate used for licenses does not include a company-specific risk premium as a wireless license would not be subject to such risk.

The discount rate is the most significant assumption used in the build-out method. The discount rate is estimated based on the overall risk-free interest rate adjusted for industry participant information, such as a typical capital structure (i.e., debt-equity ratio), the after-tax cost of debt and the cost of equity. The cost of equity takes into consideration the average risk specific to individual market participants.

As of November 1, 2013, the fair values of the built licenses units of accounting exceeded their respective carrying values by amounts ranging from 28.0% to 75.9%. Therefore, no impairment of Licenses existed. Given that the fair values of the licenses exceed their respective carrying values, the discount rate would have to increase to a range of 8.9% to 9.5% to yield estimated fair values of licenses in the respective units of accounting that equal their respective carrying values at November 1, 2013. An increase of 50 basis points to the assumed discount rate would cause an impairment of approximately $11 million.

Non-operating market licenses ("unbuilt licenses")

For purposes of performing impairment testing of unbuilt licenses, U.S. Cellular prepares estimates of fair value by reference to prices paid in recent auctions and market transactions where available. If such information is not available, the fair value of the unbuilt licenses is assumed to have changed by the same percentage, and in the same direction, that the fair value of built licenses measured using the build-out method changed during the period. There was no impairment loss recognized related to unbuilt licenses as a result of the November 1, 2013 licenses impairment test.

Carrying Value of Licenses

The carrying value of licenses at November 1, 2013 was as follows:

Unit of Accounting (1)	**Carrying Value**
(Dollars in millions)	
U.S. Cellular - Developed Operating markets	
Central Region	$ 749
Mid-Atlantic Region	235
New England Region	107
Northwest Region	68
U.S. Cellular - Non-operating markets	
New England	1
North Northwest	3
South Northwest	2
North Central	59
South Central	22
East Central	107
Mid-Atlantic	50
Total (2)	$ 1,403
TDS Telecom	3
Airadigm	15
Total (3)	$ 1,421

(1) U.S. Cellular participated in spectrum auctions indirectly through its interests in Aquinas Wireless L.P. ("Aquinas Wireless") and King Street Wireless L.P. ("King Street Wireless"), collectively, the "limited partnerships." Interests in other limited partnerships that participated in spectrum auctions have since been acquired. Each limited partnership participated in and was awarded spectrum licenses in one of two separate spectrum auctions (FCC Auctions 78 and 73). All of the units of accounting above, except New England, include licenses awarded to the limited partnerships.

(2) Under previous business combination guidance in effect prior to January 1, 2009, TDS had recorded licenses as a result of accounting for U.S. Cellular's purchases of U.S. Cellular Common Shares as step acquisitions using purchase accounting. As a result, the carrying values of the units of accounting for the developed operating markets differ between U.S. Cellular and TDS. The total carrying value of all units of accounting at U.S. Cellular was $1,398 million at November 1, 2013.

(3) Between November 1, 2013 and December 31, 2013, TDS capitalized interest on certain licenses pursuant to current network build-outs in the amount of $3 million.

Franchise rights

TDS Telecom has recorded Franchise rights as a result of the acquisition of a cable business in August 2013. The carrying value of Franchise rights as of December 31, 2013 was $123.7 million. TDS Telecom tests Franchise rights for impairment at a level of reporting referred to as a unit of accounting. For purposes of its impairment testing of Franchise rights in 2013, TDS Telecom identified one unit of accounting: Cable. A qualitative assessment, as defined by GAAP, of the Cable unit of accounting was completed as of November 1, 2013. The qualitative assessment, which analyzed company, industry and economic trends, concluded that it was more likely than not that the fair value of the Franchise rights was at least equal to their carrying value, and accordingly, no Franchise rights impairment resulted.

Income Taxes

The amounts of income tax assets and liabilities, the related income tax provision and the amount of unrecognized tax benefits are critical accounting estimates because such amounts are significant to TDS' financial condition and results of operations.

The preparation of the consolidated financial statements requires TDS to calculate a provision for income taxes. This process involves estimating the actual current income tax liability together with assessing temporary differences resulting from the different treatment of items for tax purposes. These temporary differences result in deferred income tax assets and liabilities, which are included in TDS' Consolidated Balance Sheet. TDS must then assess the likelihood that deferred income tax assets will be realized based on future taxable income and, to the extent management believes that realization is not likely, establish a valuation allowance. Management's judgment is required in determining the provision for income taxes, deferred income tax assets and liabilities and any valuation allowance that is established for deferred income tax assets.

TDS recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

See Note 3 — Income Taxes in the Notes to Consolidated Financial Statements for details regarding TDS' income tax provision, deferred income taxes and liabilities, valuation allowances and unrecognized tax benefits, including information regarding estimates that impact income taxes.

Loyalty Reward Program

See the Revenue Recognition—U.S. Cellular section of Note 1 — Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for a description of this program and the related accounting.

TDS follows the deferred revenue method of accounting for its loyalty reward program. Under this method, revenue allocated to loyalty reward points is deferred. Revenue is recognized at the time of customer redemption or when such points have been depleted via an account maintenance charge. TDS periodically reviews and revises the redemption and depletion rates as appropriate based on history and related future expectations. As of December 31, 2013, TDS estimated loyalty reward points breakage based on actuarial estimates and recorded a $7.4 million change in estimate, which reduced Customer deposits and deferred revenues in the Consolidated Balance Sheet and increased Operating revenues in the Consolidated Statement of Operations.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See Note 20 – Certain Relationships and Related Transactions in the Notes to Consolidated Financial Statements.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995
SAFE HARBOR CAUTIONARY STATEMENT

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain statements that are not based on historical facts, including the words "believes," "anticipates," "intends," "expects" and similar words. These statements constitute and represent "forward−looking statements" as this term is defined in the Private Securities Litigation Reform Act of 1995. Such forward−looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward−looking statements. Such risks, uncertainties and other factors include, but are not limited to, the following risks:

- Intense competition in the markets in which TDS operates could adversely affect TDS' revenues or increase its costs to compete.
- A failure by TDS to successfully execute its business strategy (including planned acquisitions, divestitures and exchanges) or allocate resources or capital could have an adverse effect on TDS' business, financial condition or results of operations.
- A failure by TDS' service offerings to meet customer expectations could limit TDS' ability to attract and retain customers and could have an adverse effect on TDS' business, financial condition or results of operations.
- TDS' system infrastructure may not be capable of supporting changes in technologies and services expected by customers, which could result in lost customers and revenues.
- Changes in roaming practices or other factors could cause TDS' roaming revenues to decline from current levels and/or impact TDS' ability to service its customers in geographic areas where TDS does not have its own network, which would have an adverse effect on TDS' business, financial condition or results of operations.
- A failure by TDS to obtain access to adequate radio spectrum to meet current or anticipated future needs and/or to accurately predict future needs for radio spectrum could have an adverse effect on TDS' business, financial condition or results of operations.
- To the extent conducted by the Federal Communications Commission ("FCC"), TDS is likely to participate in FCC auctions of additional spectrum in the future as an applicant or as a noncontrolling partner in another auction applicant and, during certain periods, will be subject to the FCC's anti-collusion rules, which could have an adverse effect on TDS.
- Changes in the regulatory environment or a failure by TDS to timely or fully comply with any applicable regulatory requirements could adversely affect TDS' business, financial condition or results of operations.
- Changes in Universal Service Fund ("USF") funding and/or intercarrier compensation could have an adverse impact on TDS' business, financial condition or results of operations.
- An inability to attract and/or retain highly competent management, technical, sales and other personnel could have an adverse effect on TDS' business, financial condition or results of operations.
- TDS' assets are concentrated primarily in the U.S. telecommunications industry. As a result, its results of operations may fluctuate based on factors related primarily to conditions in this industry.
- TDS' lower scale relative to larger competitors could adversely affect its business, financial condition or results of operations.
- Changes in various business factors could have an adverse effect on TDS' business, financial condition or results of operations.
- Advances or changes in technology could render certain technologies used by TDS obsolete, could put TDS at a competitive disadvantage, could reduce TDS' revenues or could increase its costs of doing business.
- Complexities associated with deploying new technologies present substantial risk.

- TDS is subject to numerous surcharges and fees from federal, state and local governments, and the applicability and the amount of these fees are subject to great uncertainty.

- Performance under device purchase agreements could have a material adverse impact on TDS' business, financial condition or results of operations.

- Changes in TDS’ enterprise value, changes in the market supply or demand for wireless licenses, wireline or cable markets or IT service providers, adverse developments in the businesses or the industries in which TDS is involved and/or other factors could require TDS to recognize impairments in the carrying value of its licenses, goodwill, franchise rights and/or physical assets.

- Costs, integration problems or other factors associated with acquisitions, divestitures or exchanges of properties or licenses and/or expansion of TDS’ businesses could have an adverse effect on TDS’ business, financial condition or results of operations.

- A significant portion of TDS’ wireless revenues is derived from customers who buy services through independent agents who market TDS’ services on a commission basis and third-party national retailers. If TDS’ relationships with these agents or third-party national retailers are seriously harmed, its business, financial condition or results of operations could be adversely affected.

- TDS’ investments in unproven technologies may not produce the benefits that TDS expects.

- A failure by TDS to complete significant network construction and systems implementation activities as part of its plans to improve the quality, coverage, capabilities and capacity of its networks and support systems could have an adverse effect on its operations.

- Financial difficulties (including bankruptcy proceedings) or other operational difficulties of TDS’ key suppliers, termination or impairment of TDS’ relationships with such suppliers, or a failure by TDS to manage its supply chain effectively could result in delays or termination of TDS’ receipt of required equipment or services, or could result in excess quantities of required equipment or services, any of which could adversely affect TDS’ business, financial condition or results of operations.

- TDS has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on TDS’ financial condition or results of operations.

- A failure by TDS to maintain flexible and capable telecommunication networks or information technology, or a material disruption thereof, including breaches of network or information technology security, could have an adverse effect on TDS’ business, financial condition or results of operations.

- Wars, conflicts, hostilities and/or terrorist attacks or equipment failures, power outages, natural disasters or other events could have an adverse effect on TDS’ business, financial condition or results of operations.

- The market price of TDS’ Common Shares is subject to fluctuations due to a variety of factors.

- Identification of errors in financial information or disclosures could require amendments to or restatements of financial information or disclosures included in this or prior filings with the Securities and Exchange Commission (“SEC”). Such amendments or restatements and related matters, including resulting delays in filing periodic reports with the SEC, could have an adverse effect on TDS’ business, financial condition or results of operations.

- The existence of material weaknesses in the effectiveness of internal control over financial reporting could result in inaccurate financial statements or other disclosures or failure to prevent fraud, which could have an adverse effect on TDS’ business, financial condition or results of operations.

- Changes in facts or circumstances, including new or additional information that affects the calculation of potential liabilities for contingent obligations under guarantees, indemnities, claims, litigation or otherwise, could require TDS to record charges in excess of amounts accrued in the financial statements, if any, which could have an adverse effect on TDS’ business, financial condition or results of operations.

- Disruption in credit or other financial markets, a deterioration of U.S. or global economic conditions or other events could, among other things, impede TDS' access to or increase the cost of financing its operating and investment activities and/or result in reduced revenues and lower operating income and cash flows, which would have an adverse effect on TDS' business, financial condition or results of operations.

- Uncertainty of TDS' ability to access capital, deterioration in the capital markets, other changes in market conditions, changes in TDS' credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development or acquisition programs.

- Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on TDS' business, financial condition or results of operations.

- The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from wireless devices and/or cell sites cause harmful health consequences, including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on TDS' wireless business, financial condition or results of operations.

- Claims of infringement of intellectual property and proprietary rights of others, primarily involving patent infringement claims, could prevent TDS from using necessary technology to provide products or services or subject TDS to expensive intellectual property litigation or monetary penalties, which could have an adverse effect on TDS' business, financial condition or results of operations.

- Certain matters, such as control by the TDS Voting Trust and provisions in the TDS Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of TDS.

- Any of the foregoing events or other events could cause revenues, earnings, capital expenditures and/or any other financial or statistical information to vary from TDS' forward-looking estimates by a material amount.

See "Risk Factors" in TDS' Annual Report on Form 10-K for the year ended December 31, 2013 for a further discussion of these risks. TDS undertakes no obligation to update publicly any forward−looking statements whether as a result of new information, future events or otherwise. Readers should evaluate any statements in light of these important factors.

MARKET RISK

Long-Term Debt

As of December 31, 2013, the majority of TDS' long-term debt was in the form of fixed-rate notes with maturities ranging up to 48 years. Fluctuations in market interest rates can lead to significant fluctuations in the fair value of these fixed-rate notes.

The following table presents the scheduled principal payments on long-term debt and capital lease obligations, and the related weighted average interest rates by maturity dates at December 31, 2013:

	Principal Payments Due by Period	
(Dollars in millions)	Long-Term Debt Obligations (1)	Weighted-Avg. Interest Rates on Long-Term Debt Obligations (2)
2014	$ 1.6	4.8 %
2015	1.3	2.7 %
2016	3.1	4.8 %
2017	0.2	9.1 %
2018	0.2	9.2 %
After 5 years	1,726.9	6.7 %
Total	$ 1,733.3	6.7 %

(1) The total long-term debt obligation differs from Long-term debt in Consolidated Balance Sheet due to the $11.6 million unamortized discount related to U.S. Cellular's 6.7% Senior Notes. See Note 10 —Debt in the Notes to Consolidated Financial Statements for additional information.

(2) Represents the weighted average interest rates at December 31, 2013 for debt maturing in the respective periods.

Fair Value of Long-Term Debt

At December 31, 2013 and 2012, the estimated fair value of long-term debt obligations, excluding capital lease obligations and the current portion of such long-term debt, was $1,560.6 million and $1,827.6 million, respectively. The fair value of long-term debt, excluding capital lease obligations and the current portion of such 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 at December 31, 2013 and 2012 and discounted cash flow analysis for U.S. Cellular's 6.7% Senior Notes and the remaining debt at December 31, 2013 and 2012.

Other Market Risk Sensitive Instruments

The substantial majority of TDS' other market risk sensitive instruments (as defined in item 305 of SEC Regulation S-K) are short-term, including Cash and cash equivalents and Short-term investments. The fair value of such instruments is less sensitive to market fluctuations than longer term instruments. Accordingly, TDS believes that a significant change in interest rates would not have a material effect on such other market risk sensitive instruments.

Telephone and Data Systems, Inc.
Consolidated Statement of Operations

Year Ended December 31,	2013	2012	2011
(Dollars and shares in thousands, except per share amounts)			
Operating revenues	$ 4,901,236	$ 5,345,277	$ 5,180,471
Operating expenses			
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	2,225,316	2,272,570	2,050,644
Selling, general and administrative	1,947,778	2,033,901	2,002,359
Depreciation, amortization and accretion	1,018,077	813,626	765,776
Loss on impairment of assets	-	515	-
(Gain) loss on asset disposals, net	30,841	19,741	10,952
(Gain) loss on sale of business and other exit costs, net	(300,656)	21,061	-
(Gain) loss on license sales and exchanges	(255,479)	-	(11,762)
Total operating expenses	4,665,877	5,161,414	4,817,969
Operating income	235,359	183,863	362,502
Investment and other income (expense)			
Equity in earnings of unconsolidated entities	132,714	92,867	82,538
Interest and dividend income	9,092	9,248	9,145
Gain (loss) on investments	14,547	(3,718)	24,103
Interest expense	(98,811)	(86,745)	(118,201)
Other, net	(37)	720	3,658
Total investment and other income (expense)	57,505	12,372	1,243
Income before income taxes	292,864	196,235	363,745
Income tax expense	126,043	73,582	113,503
Net income	166,821	122,653	250,242
Less: Net income attributable to noncontrolling interests, net of tax	24,894	40,792	49,676
Net income attributable to TDS shareholders	141,927	81,861	200,566
TDS Preferred dividend requirement	(49)	(50)	(50)
Net income available to common shareholders	$ 141,878	$ 81,811	$ 200,516
Basic weighted average shares outstanding	108,490	108,671	108,562
Basic earnings per share attributable to TDS shareholders	$ 1.31	$ 0.75	$ 1.85
Diluted weighted average shares outstanding	109,132	108,937	109,098
Diluted earnings per share attributable to TDS shareholders	$ 1.29	$ 0.75	$ 1.83
Dividends per share to TDS shareholders	$ 0.51	$ 0.49	$ 0.47

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

Telephone and Data Systems, Inc.
Consolidated Statement of Comprehensive Income

Year Ended December 31,	2013	2012	2011
(Dollars in thousands)			
Net income	$ 166,821	$ 122,653	$ 250,242
Net change in accumulated other comprehensive income			
Change in net unrealized gain on equity investments	51	49	138
Change in foreign currency translation adjustment	(34)	4	-
Change related to retirement plan			
Amounts included in net periodic benefit cost for the period			
Net actuarial gains (losses)	13,345	90	(9,625)
Amortization of prior service cost	(3,605)	(3,735)	(3,815)
Amortization of unrecognized net loss	2,452	2,517	1,934
	12,192	(1,128)	(11,506)
Change in deferred income taxes	(4,646)	1,797	5,722
Change related to retirement plan, net of tax	7,546	669	(5,784)
Net change in accumulated other comprehensive income	7,563	722	(5,646)
Comprehensive income	174,384	123,375	244,596
Less: Comprehensive income attributable to noncontrolling interest	24,894	40,792	49,676
Comprehensive income attributable to TDS shareholders	$ 149,490	$ 82,583	$ 194,920

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

Telephone and Data Systems, Inc.
Consolidated Statement of Cash Flows

Year Ended December 31, (Dollars in thousands)	2013	2012	2011
Cash flows from operating activities			
Net income	$ 166,821	$ 122,653	$ 250,242
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities			
Depreciation, amortization and accretion	1,018,077	813,626	765,776
Bad debts expense	105,629	74,695	68,611
Stock-based compensation expense	30,338	41,871	36,837
Deferred income taxes, net	(67,150)	58,785	202,547
Equity in earnings of unconsolidated entities	(132,714)	(92,867)	(82,538)
Distributions from unconsolidated entities	127,929	84,884	92,231
Loss on impairment of assets	-	515	-
(Gain) loss on asset disposals, net	30,841	19,741	10,952
(Gain) loss on sale of business and other exit costs, net	(300,656)	21,061	-
(Gain) loss on license sales and exchanges	(255,479)	-	(11,762)
(Gain) loss on investments	(14,547)	3,718	(24,103)
Noncash interest expense	2,463	(572)	18,849
Other operating activities	612	1,393	1,067
Changes in assets and liabilities from operations			
Accounts receivable	(294,320)	(81,107)	(95,426)
Inventory	(83,536)	(29,917)	(13,382)
Accounts payable	86,028	(12,332)	29,291
Customer deposits and deferred revenues	66,460	32,981	35,457
Accrued taxes	17,388	77,458	(27,871)
Accrued interest	380	(891)	3,351
Other assets and liabilities	(9,954)	(30,523)	(4,418)
	494,610	1,105,172	1,255,711
Cash flows from investing activities			
Cash used for additions to property, plant and equipment	(883,797)	(995,517)	(971,759)
Cash paid for acquisitions and licenses	(314,570)	(163,382)	(105,508)
Cash received from divestitures	811,120	50,182	-
Cash paid for investments	-	(120,000)	(180,920)
Cash received for investments	115,000	243,444	393,246
Other investing activities	11,594	(12,796)	(1,148)
	(260,653)	(998,069)	(866,089)
Cash flows from financing activities			
Repayment of short-term debt	-	-	(32,671)
Repayment of long-term debt	(1,581)	(2,566)	(614,639)
Issuance of long-term debt	37	195,358	643,700
TDS Common Shares and Special Common Shares reissued for benefit plans, net of tax payments	9,654	(1,119)	32
U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	5,784	(2,205)	1,935
Repurchase of TDS Common and Special Common Shares	(9,692)	(20,026)	(21,500)
Repurchase of U.S. Cellular Common Shares	(18,544)	(20,045)	(62,294)
Dividends paid to TDS shareholders	(55,293)	(53,165)	(48,670)
U.S. Cellular dividends paid to noncontrolling public shareholders	(75,235)	-	-
Payment of debt issuance costs	(23)	(8,242)	(21,657)
Distributions to noncontrolling interests	(3,766)	(20,856)	(16,236)
Payments to acquire additional interest in subsidiaries	(4,505)	(3,167)	-
Other financing activities	8,740	6,136	3,970
	(144,424)	70,103	(168,030)
Net increase in cash and cash equivalents	89,533	177,206	221,592
Cash and cash equivalents			
Beginning of period	740,481	563,275	341,683
End of period	$ 830,014	$ 740,481	$ 563,275

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

Telephone and Data Systems, Inc.
Consolidated Balance Sheet — Assets

December 31, (Dollars in thousands)	2013	2012
Current assets		
Cash and cash equivalents	$ 830,014	$ 740,481
Short-term investments	50,104	115,700
Accounts receivable		
Due from customers and agents, less allowances of $63,690 and $28,152, respectively	551,611	409,720
Other, less allowances of $1,914 and $5,263, respectively	179,503	164,608
Inventory, net	244,560	160,692
Net deferred income tax asset	106,077	43,411
Prepaid expenses	87,920	86,385
Income taxes receivable	2,397	9,625
Other current assets	35,151	32,815
	2,087,337	1,763,437
Assets held for sale	16,027	163,242
Investments		
Licenses	1,423,779	1,480,039
Goodwill	836,843	797,194
Franchise rights	123,668	-
Other intangible assets, net of accumulated amortization of $112,752 and $143,613, respectively	71,454	58,522
Investments in unconsolidated entities	301,772	179,921
Long-term investments	-	50,305
Other investments	641	824
	2,758,157	2,566,805
Property, plant and equipment		
In service and under construction	11,239,804	10,808,499
Less: Accumulated depreciation	7,361,660	6,811,233
	3,878,144	3,997,266
Other assets and deferred charges	164,482	133,150
Total assets	$ 8,904,147	$ 8,623,900

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

Telephone and Data Systems, Inc.
Consolidated Balance Sheet — Liabilities and Equity

December 31, (Dollars and shares in thousands)	2013	2012
Current liabilities		
Current portion of long-term debt	$ 1,646	$ 1,233
Accounts payable	496,069	377,291
Customer deposits and deferred revenues	289,445	222,345
Accrued interest	6,673	6,565
Accrued taxes	70,518	48,237
Accrued compensation	115,031	134,932
Other current liabilities	212,374	134,005
	1,191,756	924,608
Liabilities held for sale	-	19,594
Deferred liabilities and credits		
Net deferred income tax liability	862,975	862,580
Other deferred liabilities and credits	458,709	438,727
Long-term debt	1,720,074	1,721,571
Commitments and contingencies		
Noncontrolling interests with redemption features	536	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 132,711 shares (7,166 Series A Common and 125,545 Common Shares) and 132,672 shares (7,160 Series A Common, and 125,512 Common Shares), respectively		
Outstanding 108,757 shares (7,166 Series A Common and 101,591 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)	1,327	1,327
Capital in excess of par value	2,308,807	2,304,122
Treasury shares at cost:		
23,954 and 24,641 Common Shares, respectively	(721,354)	(750,099)
Accumulated other comprehensive loss	(569)	(8,132)
Retained earnings	2,529,626	2,464,318
Total TDS shareholders' equity	4,117,837	4,011,536
Preferred shares	824	825
Noncontrolling interests	551,436	643,966
Total equity	4,670,097	4,656,327
Total liabilities and equity	$ 8,904,147	$ 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

(Dollars in thousands)	TDS Shareholders								
	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	-	-	-	-	141,927	141,927	-	-	141,927
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	-	-	24,661	24,661
Net unrealized gain (loss) on equity investments	-	-	-	51	-	51	-	-	51
Change in foreign currency translation adjustment				(34)	-	(34)	-	-	(34)
Changes related to retirement plan	-	-	-	7,546	-	7,546	-	-	7,546
TDS Common and Series A Common Share dividends	-	-	-	-	(55,244)	(55,244)	-	-	(55,244)
TDS Preferred dividend requirement	-	-	-	-	(49)	(49)	-	-	(49)
U.S. Cellular dividends paid to noncontrolling public shareholders	-	-	-	-	-	-	-	(75,235)	(75,235)
Repurchase of Preferred Shares	-	-	-	-	(5)	(5)	(1)	-	(6)
Repurchase of shares	-	-	(9,692)	-	-	(9,692)			(9,692)
Dividend reinvestment plan	-	1,619	13,647	-	(5,966)	9,300	-	-	9,300
Incentive and compensation plans	-	655	24,790	-	(15,355)	10,090	-	-	10,090
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	-	(290)	-	-	-	(290)	-	20	(270)
Stock-based compensation awards	-	14,430	-	-	-	14,430	-	-	14,430
Tax windfall (shortfall) from stock awards	-	(1,311)	-	-	-	(1,311)	-	-	(1,311)
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(3,576)	(3,576)
Adjust investment in subsidiaries for noncontrolling interest purchases	-	(10,418)	-	-	-	(10,418)	-	5,370	(5,048)
Deconsolidation of partnerships	-	-	-	-	-	-	-	(43,770)	(43,770)
December 31, 2013	**$ 1,327**	**$ 2,308,807**	**$ (721,354)**	**$ (569)**	**$ 2,529,626**	**$ 4,117,837**	**$ 824**	**$ 551,436**	**$ 4,670,097**

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

	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**	**$ 4,602,679**
Add (Deduct)									
Net income attributable to TDS shareholders	-	-	-	-	81,861	81,861	-	-	81,861
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	-	-	40,739	40,739
Net unrealized gain (loss) on equity investments	-	-	-	49	-	49	-	-	49
Change in foreign currency translation adjustment	-	-	-	4	-	4	-	-	4
Changes related to retirement plan	-	-	-	669	-	669	-	-	669
TDS Common and Series A Common Share dividends	-	-	-	-	(53,115)	(53,115)	-	-	(53,115)
TDS Preferred dividend requirement	-	-	-	-	(50)	(50)	-	-	(50)
Repurchase of Preferred Shares	-	-	-	-	(17)	(17)	(5)	-	(22)
Repurchase of shares	-	-	(20,026)	-	-	(20,026)	-	-	(20,026)
Dividend reinvestment plan	1	1,148	14,123	-	(8,349)	6,923	-	-	6,923
Incentive and compensation plans	-	444	6,725	-	(7,911)	(742)	-	-	(742)
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	-	12,572	-	-	-	12,572	-	(14,924)	(2,352)
Stock-based compensation awards	-	20,030	-	-	-	20,030	-	-	20,030
Tax windfall (shortfall) from stock awards	-	(3,179)	-	-	-	(3,179)	-	-	(3,179)
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(20,856)	(20,856)
Adjust investment in subsidiaries for noncontrolling interest purchases	-	4,396	-	-	-	4,396	-	(738)	3,658
Other	-	-	-	-	-	-	-	57	57
December 31, 2012	**$ 1,327**	**$ 2,304,122**	**$ (750,099)**	**$ (8,132)**	**$ 2,464,318**	**$ 4,011,536**	**$ 825**	**$ 643,966**	**$ 4,656,327**

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

Telephone and Data Systems, Inc.
Consolidated Statement of Changes in Equity

	TDS Shareholders								
(Dollars in thousands)	Series A Common, Special Common and Common Shares	Capital in Excess of Par Value	Special Common and Common Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total TDS Shareholders' Equity	Preferred Shares	Non controlling Interests	Total Equity
December 31, 2010	**$ 1,270**	**$ 2,107,929**	**$ (738,695)**	**$ (3,208)**	**$ 2,450,599**	**$ 3,817,895**	**$ 830**	**$ 647,013**	**$ 4,465,738**
Add (Deduct)									
Net income attributable to TDS shareholders	-	-	-	-	200,566	200,566	-	-	200,566
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	-	-	49,505	49,505
Net unrealized gain (loss) on equity investments	-	-	-	138	-	138	-	-	138
Changes related to retirement plan	-	-	-	(5,784)	-	(5,784)	-	-	(5,784)
TDS Common, Special Common and Series A Common Share dividends	-	-	-	-	(48,620)	(48,620)	-	-	(48,620)
TDS Preferred dividend requirement	-	-	-	-	(50)	(50)	-	-	(50)
Repurchase of shares	-	-	(21,500)	-	-	(21,500)	-	-	(21,500)
Dividend reinvestment plan	-	1,087	5,260	-	(2,675)	3,672	-	-	3,672
Incentive and compensation plans	-	279	4,014	-	(3,817)	476	-	-	476
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	-	(572)	-	-	-	(572)	-	(40,961)	(41,533)
Stock-based compensation awards	-	16,654	-	-	-	16,654	-	-	16,654
Tax windfall (shortfall) from stock awards	-	(697)	-	-	-	(697)	-	-	(697)
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(16,236)	(16,236)
Impact of Share Consolidation	56	144,031	-	-	(144,104)	(17)	-	-	(17)
Other	-	-	-	-	-	-	-	367	367
December 31, 2011	**$ 1,326**	**$ 2,268,711**	**$ (750,921)**	**$ (8,854)**	**$ 2,451,899**	**$ 3,962,161**	**$ 830**	**$ 639,688**	**$ 4,602,679**

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

Telephone and Data Systems, Inc.
Notes to Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

Nature of Operations

Telephone and Data Systems, Inc. ("TDS") is a diversified telecommunications company providing high-quality telecommunications services to approximately 4.8 million wireless customers and 1.1 million wireline and cable connections at December 31, 2013. TDS conducts substantially all of its wireless operations through its 84%-owned subsidiary, United States Cellular Corporation ("U.S. Cellular"). TDS provides wireline services, cable services and hosted and managed services ("HMS") through its wholly-owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom").

TDS conducts printing and distribution services through its majority-owned subsidiary, Suttle-Straus, Inc. ("Suttle-Straus") and provides wireless services through its wholly-owned subsidiary, Airadigm Communications, Inc. ("Airadigm"), a Wisconsin-based service provider (collectively, the "Non-Reportable Segment"). At this time, Airadigm operates independently from U.S. Cellular. Suttle-Straus and Airadigm's financial results were not significant to TDS' operations in 2013.

Previously, TDS had reported the following reportable segments: U.S. Cellular, TDS Telecom's incumbent local exchange carrier ("ILEC"), its competitive local exchange carrier ("CLEC"), its HMS operations and the Non-Reportable Segment. As a result of recent acquisitions and changes in TDS' strategy, operations and internal reporting, TDS has reevaluated and changed its operating segments during the year ended December 31, 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. The HMS segment remains unchanged, except that it now uses a unified brand name, OneNeck IT Solutions ("OneNeck"), as a result of the consolidation of the HMS operations. 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. See Note 18 — Business Segment Information for summary financial information on each business segment.

Principles of Consolidation

The accounting policies of 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"). Unless otherwise specified, references to accounting provisions and GAAP in these notes refer to the requirements of the FASB ASC. The consolidated financial statements include the accounts of TDS, its majority-owned subsidiaries, general partnerships in which it has a majority partnership interest and variable interest entities ("VIEs") in which TDS is the primary beneficiary. Both VIE and primary beneficiary represent terms defined by GAAP.

Intercompany accounts and transactions have been eliminated.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2013 financial statement presentation. These reclassifications did not affect consolidated net income attributable to TDS shareholders, cash flows, assets, liabilities or equity for the years presented.

Business Combinations

TDS accounts for business combinations at fair value in accordance with the acquisition method. This method requires that the acquirer recognize 100% of the acquiree's assets and liabilities at their fair values on the acquisition date for all acquisitions, whether full or partial. In addition, transaction costs related to acquisitions are expensed.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (a) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and (b) the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Significant estimates are involved in accounting for goodwill and indefinite-lived intangible assets, depreciation, amortization and accretion, allowance for doubtful accounts, loyalty reward points, income taxes, stock based compensation and asset retirement obligations.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments with original maturities of three months or less.

Short-Term and Long-Term Investments

At December 31, 2013 and 2012, TDS had $50.1 million and $115.7 million, respectively, in Short-term investments. At December 31, 2012, TDS had $50.3 million in Long-term investments. Short-term and Long-term investments consist primarily of U.S. Treasury Notes which are designated as held-to-maturity investments and are recorded at amortized cost in the Consolidated Balance Sheet. For these investments, TDS' objective is to earn a higher rate of return on funds that are not anticipated to be required to meet liquidity needs in the near term, while maintaining a low level of investment risk. See Note 2 — Fair Value Measurements for additional details on Short-term and Long-term investments.

Accounts Receivable and Allowance for Doubtful Accounts

U.S. Cellular's accounts receivable consist primarily of amounts owed by customers for wireless services and equipment sales, by agents for sales of equipment to them and by other wireless carriers whose customers have used U.S. Cellular's wireless systems.

TDS Telecom's accounts receivable primarily consist of amounts owed by customers for services provided, by interexchange carriers for long-distance traffic which TDS Telecom carries on its network, and by interstate and intrastate revenue pools that distribute access charges.

The allowance for doubtful accounts is the best estimate of the amount of probable credit losses related to existing accounts receivable. The allowance is estimated based on historical experience and other factors that could affect collectability. Accounts receivable balances are reviewed on either an aggregate or individual basis for collectability depending on the type of receivable. When it is probable that an account balance will not be collected, the account balance is charged against the allowance for doubtful accounts. TDS does not have any off-balance sheet credit exposure related to its customers.

The changes in the allowance for doubtful accounts during the years ended December 31, 2013, 2012 and 2011 were as follows:

(Dollars in thousands)	2013	2012	2011
Beginning balance	$ 33,415	$ 31,071	$ 35,007
Additions, net of recoveries	105,629	74,695	68,611
Deductions	(73,440)	(72,351)	(72,547)
Ending balance	$ 65,604	$ 33,415	$ 31,071

Inventory

Inventory consists primarily of wireless devices stated at the lower of cost or market, with cost determined using the first-in, first-out method and market determined by replacement costs or estimated net realizable value. TDS Telecom's materials and supplies are stated at average cost.

Fair Value Measurements

Under the provisions of GAAP, fair value is a market-based measurement and not an entity-specific measurement, based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). The provisions also establish a fair value hierarchy that contains three levels for inputs used in fair value measurements. Level 1 inputs include quoted market prices for identical assets or liabilities in active markets. Level 2 inputs include quoted market prices for similar assets and liabilities in active markets or quoted market prices for identical assets and liabilities in inactive markets. Level 3 inputs are unobservable. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. A financial instrument's level within the fair value hierarchy is not representative of its expected performance or its overall risk profile and, therefore, Level 3 assets are not necessarily higher risk than Level 2 assets or Level 1 assets.

Goodwill

TDS has Goodwill as a result of its acquisitions of wireless businesses, the acquisitions of ILEC, cable, and HMS companies and, under previous business combination guidance in effect prior to 2009, step acquisitions related to U.S. Cellular's repurchase of its common shares. Such Goodwill represents the excess of the total purchase price over the fair value of net assets acquired in these transactions.

Licenses

Licenses consist of direct and incremental costs incurred in acquiring Federal Communications Commission ("FCC") licenses to provide wireless service.

TDS has determined that wireless licenses are indefinite-lived intangible assets and, therefore, not subject to amortization based on the following factors:

- Radio spectrum is not a depleting asset.
- The ability to use radio spectrum is not limited to any one technology.
- TDS and its consolidated subsidiaries are licensed to use radio spectrum through the FCC licensing process, which enables licensees to utilize specified portions of the spectrum for the provision of wireless service.
- TDS and its consolidated subsidiaries are required to renew their FCC licenses every ten years or, in some cases, every fifteen years. To date, all of TDS' license renewal applications have been granted by the FCC. Generally, license renewal applications filed by licensees otherwise in compliance with FCC regulations are routinely granted. If, however, a license renewal application is challenged either by a competing applicant for the license or by a petition to deny the renewal application, the license will be renewed if the licensee can demonstrate its entitlement to a "renewal expectancy." Licensees are entitled to such an expectancy if they can demonstrate to the FCC that they have provided "substantial service" during their license term and have "substantially complied" with FCC rules and policies. TDS believes that it is probable that its future license renewal applications will be granted.

Franchise rights

TDS has Franchise rights as a result of its acquisition of a cable business. Franchise rights are intangible assets that provide their holder with the right to operate a business in a certain geographical location as sanctioned by the franchiser, usually a government agency. TDS has determined that Franchise rights are indefinite-lived intangible assets and, therefore, not subject to amortization because TDS expects both the renewal by the granting authorities and the cash flows generated from the Franchise rights to continue indefinitely. Cable Franchise rights are generally granted for ten year periods and may be renewed for additional terms upon approval by the granting authority. TDS anticipates that future renewals of its Franchise rights will be granted.

Goodwill, Licenses and Franchise rights Impairment Assessment

Goodwill, Licenses and Franchise rights must be assessed for impairment annually or more frequently if events or changes in circumstances indicate that such assets might be impaired. TDS performs its annual impairment assessment of Goodwill, Licenses and Franchise rights as of November 1 of each year.

TDS may first assess qualitative factors, such as company, industry and economic trends to determine whether it is necessary to perform the two-step Goodwill impairment test. If determined to be necessary, the first step compares the fair value of the reporting unit to its carrying value. If the carrying amount exceeds the fair value, the second step of the test is performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit Goodwill with the carrying amount of that Goodwill. To calculate the implied fair value of Goodwill in this second step, an enterprise allocates the fair value of the reporting unit to all of the assets and liabilities of that reporting unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amount assigned to the assets and liabilities of the reporting unit is the implied fair value of Goodwill. If the carrying amount of Goodwill exceeds the implied fair value of Goodwill, an impairment loss is recognized for that difference.

The impairment test for an indefinite-lived intangible asset other than Goodwill may consist of first assessing qualitative factors, such as company, industry and economic trends. If determined to be necessary, the next step compares the fair value of the intangible asset to its carrying amount. If the carrying amount exceeds the fair value, an impairment loss is recognized for the difference.

Quoted market prices in active markets are the best evidence of fair value of an intangible asset or reporting unit 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. Other valuation techniques include present value analysis, multiples of earnings or revenues, or similar performance measures. The use of these techniques involve 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.

U.S. Cellular

U.S. Cellular tests Goodwill for impairment at the level of reporting referred to as a reporting unit. For purposes of its impairment testing of Goodwill in 2013, U.S. Cellular identified four reporting units. The four reporting units represent four geographic groupings of operating markets, representing four geographic service areas. For purposes of its impairment testing of Goodwill in 2012, U.S. Cellular identified five reporting units. The change in reporting units resulted from the NY1 & NY2 Deconsolidation more fully described in Note 7 — Investments in Unconsolidated Entities.

A discounted cash flow approach was used to value each reporting unit for purposes of the Goodwill impairment review by using value drivers and risks specific to the current industry and economic markets. The cash flow estimates incorporated assumptions that market participants would use in their estimates of fair value. Key assumptions made in this process were the discount rate, estimated expected revenue growth rate, projected capital expenditures and the terminal growth rate.

U.S. Cellular tests Licenses for impairment at the level of reporting referred to as a unit of accounting. For purposes of its 2013 impairment testing of Licenses, U.S. Cellular separated its FCC licenses into eleven units of accounting based on geographic service areas. For purposes of its 2012 impairment testing of Licenses, U.S. Cellular separated its FCC licenses into thirteen units of accounting based on geographic service areas. The change in units of accounting resulted from (i) the Divestiture Transaction and the Mississippi Valley non-operating market license sale, both of which are more fully described in Note 5 — Acquisitions, Divestitures and Exchanges and (ii) the NY1 & NY2 Deconsolidation more fully described in Note 7 — Investments in Unconsolidated Entities. In both 2013 and 2012, seven of the units of accounting represented geographic groupings of licenses which, because they were not being utilized and, therefore, were not expected to generate cash flows from operating activities in the foreseeable future, were considered separate units of accounting for purposes of impairment testing.

U.S. Cellular estimates the fair value of built licenses for purposes of impairment testing using the build-out method. The build-out method estimates the fair value of Licenses by calculating future cash flows from a hypothetical start-up wireless company and assuming that the only assets available upon formation are the underlying Licenses. To apply this method, a hypothetical build-out of U.S. Cellular's wireless network, infrastructure, and related costs are projected based on market participant information. Calculated cash flows, along with a terminal value, are discounted to the present and summed to determine the estimated fair value.

For units of accounting which consist of unbuilt licenses, U.S. Cellular prepares estimates of fair value by reference to prices paid in recent auctions and market transactions where available. If such information is not available, the fair value of the unbuilt licenses is assumed to change by the same percentage, and in the same direction, that the fair value of built licenses measured using the build-out method changed during the period.

TDS Telecom

TDS Telecom has recorded Goodwill as a result of the acquisition of ILEC, HMS and cable businesses. For purposes of the annual impairment testing, TDS Telecom has three reporting units: one ILEC reporting unit within its Wireline reportable operating segment, one reporting unit within its HMS reportable operating segment and one reporting unit within its Cable reportable operating segment.

For purposes of its annual impairment testing of Goodwill, as of November 1, 2012, TDS Telecom identified four reporting units: one reporting unit within its ILEC reportable operating segment and three reporting units within its HMS reportable operating segment. TDS Telecom's change in reporting units resulted from additional acquisitions and TDS' reevaluation of its operating segments, more fully described above.

For purposes of its impairment testing of Goodwill in 2013, TDS Telecom performed a qualitative assessment of the Cable reporting unit, which analyzed company, industry and economic trends and determined the two-step Goodwill impairment test was not necessary since it was more likely than not that the fair value was at least equal to the carrying value of the reporting unit.

The discounted cash flow approach and publicly-traded guideline company method were used to value the ILEC and HMS reporting units. The discounted cash flow approach uses value drivers and risks specific to the industry and current economic factors. The cash flow estimates incorporated assumptions that market participants would use in their estimates of fair value and may not be indicative of TDS Telecom's specific assumptions. The most significant assumptions made in this process were the revenue growth rate, discount rate, projected capital expenditures and the terminal growth rate.

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 various financial measures. The developed multiples are applied to applicable financial measures of the respective reporting unit to determine fair value. Given the nature of this methodology, no specific consideration of the economic environment was considered since those factors would be inherent in the multiples used.

TDS Telecom has recorded Franchise rights as a result of the acquisition of a cable business in August 2013. TDS Telecom tests Franchise rights for impairment at a level of reporting referred to as a unit of accounting. For purposes of its impairment testing of Franchise rights in 2013, TDS Telecom identified one Cable unit of accounting. TDS Telecom performed a qualitative assessment of the Cable unit of accounting, which analyzed company, industry and economic trends and determined no further testing was necessary since it was more likely than not that the fair value of the Franchise rights was at least equal to their carrying value.

Investments in Unconsolidated Entities

Investments in unconsolidated entities consist of amounts invested in wireless and wireline entities in which TDS holds a noncontrolling interest. TDS follows the equity method of accounting for such investments in which its ownership interest is less than or equal to 50% but equals or exceeds 20% for corporations and 3% for partnerships and limited liability companies, or for unconsolidated entities in which its ownership is greater than 50% but TDS does not have a controlling financial interest. The cost method of accounting is followed for such investments in which TDS' ownership interest is less than 20% for corporations and is less than 3% for partnerships and limited liability companies and for investments for which TDS does not have the ability to exercise significant influence.

For its equity method investments for which financial information is readily available, TDS records its equity in the earnings of the entity in the current period. For its equity method investments for which financial information is not readily available, TDS records its equity in the earnings of the entity on a one quarter lag basis.

Property, Plant and Equipment

Property, plant and equipment is stated at the original cost of construction or purchase including capitalized costs of certain taxes, payroll-related expenses, interest and estimated costs to remove the assets.

Expenditures that enhance the productive capacity of assets in service or extend their useful lives are capitalized and depreciated. Expenditures for maintenance and repairs of assets in service are charged to Cost of services and products or Selling, general and administrative expense, as applicable. Retirements and disposals of assets are recorded by removing the original cost of the asset (along with the related accumulated depreciation) from plant in service and charging it, together with net removal costs (removal costs less any applicable accrued asset retirement obligations and salvage value realized), to (Gain) loss on asset disposals, net.

Costs of developing new information systems are capitalized and amortized over their expected economic useful lives.

Depreciation

Depreciation is provided using the straight-line method over the estimated useful life of the assets, except for certain Wireline segment assets, which use the group depreciation method. The group depreciation method develops a depreciation rate based on the average useful life of a specific group of assets, rather than each asset individually. TDS depreciates leasehold improvement assets associated with leased properties over periods ranging from one to thirty years; such periods approximate the shorter of the assets' economic lives or the specific lease terms.

Useful lives of specific assets are reviewed throughout the year to determine if changes in technology or other business changes would warrant accelerating the depreciation of those specific assets. Due to the Divestiture Transaction more fully described in Note 5 — Acquisitions, Divestitures and Exchanges, U.S. Cellular changed the useful lives of certain assets in 2013 and 2012. Other than the Divestiture Transaction, there were no other material changes to useful lives of property, plant and equipment in 2013, 2012 or 2011. TDS Telecom did not materially change the useful lives of its property, plant and equipment in 2013, 2012 or 2011.

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. If necessary, 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 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 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 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.

Agent Liabilities

U.S. Cellular has relationships with agents, which are independent businesses that obtain customers for U.S. Cellular. At December 31, 2013 and 2012, U.S. Cellular had accrued $121.3 million and $88.2 million, respectively, for amounts due to agents. This amount is included in Other current liabilities in the Consolidated Balance Sheet.

Other Assets and Deferred Charges

Other assets and deferred charges include underwriters' and legal fees and other charges related to issuing various borrowing instruments and other long-term agreements, and are amortized over the respective term of each instrument. The amounts for deferred charges included in the Consolidated Balance Sheet at December 31, 2013 and 2012, are shown net of accumulated amortization of $41.4 million and $30.0 million, respectively.

Asset Retirement Obligations

U.S. Cellular operates cell sites, retail stores and office spaces in its operating markets. A majority of these sites, stores and office spaces are leased. Most of these leases contain terms which require or may require U.S. Cellular to return the leased property to its original condition at the lease expiration date.

TDS Telecom owns poles, cable and wire and certain buildings and leases data center and office space and property used for housing central office switching equipment and fiber cable. These assets and leases often have removal or remediation requirements associated with them. For example, TDS Telecom's poles, cable and wire are often located on property that is not owned by TDS Telecom and are often subject to the provisions of easements, permits, or leasing arrangements. Pursuant to the terms of the permits, easements, or leasing arrangements, TDS Telecom is often required to remove these assets and return the property to its original condition at some defined date in the future.

TDS accounts for asset retirement obligations by recording the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. At the time the liability is incurred, TDS records a liability equal to the net present value of the estimated cost of the asset retirement obligation and increases the carrying amount of the related long-lived asset by an equal amount. The liability is accreted to its present value over a period ending with the estimated settlement date of the respective asset retirement obligation. The carrying amount of the long-lived asset is depreciated over the useful life of the asset. Upon settlement of the obligation, any difference between the cost to retire the asset and the recorded liability (including accretion of discount) is recognized in the Consolidated Statement of Operations.

Treasury Shares

Common Shares repurchased by TDS are recorded at cost as treasury shares and result in a reduction of equity. Treasury shares are reissued as part of TDS' stock-based compensation programs. When treasury shares are reissued, TDS determines the cost using the first-in, first-out cost method. The difference between the cost of the treasury shares and reissuance price is included in Capital in excess of par value or Retained earnings.

Revenue Recognition

U.S. Cellular

Revenues from wireless operations consist primarily of:

- Charges for access, airtime, roaming, long distance, data and other value added services provided to U.S. Cellular's retail customers and to end users through third−party resellers;
- Charges to carriers whose customers use U.S. Cellular's systems when roaming;
- Sales of equipment and accessories;
- Amounts received from the Universal Service Fund ("USF") in states where U.S. Cellular has been designated an Eligible Telecommunications Carrier ("ETC"); and
- Redemptions of loyalty reward points for products or services.

Revenues related to wireless services and other value added services are recognized as services are rendered. Revenues billed in advance or in arrears of the services being provided are estimated and deferred or accrued, as appropriate.

Revenues from sales of equipment and accessories are recognized when title and risk of loss passes to the agent or end-user customer.

U.S. Cellular allocates revenue to each element of multiple element service offerings using the relative selling price method. Under this method, arrangement consideration, which consists of the amounts billed to the customer net of any cash-based discounts, is allocated to each element on the basis of its relative selling price on a stand-alone basis. Such stand-alone selling price is determined in accordance with the following hierarchy:

- U.S. Cellular-specific objective evidence of stand-alone selling price, if available; otherwise
- Third-party evidence of selling price, if it is determinable; otherwise
- A best estimate of stand-alone selling price.

U.S. Cellular estimates stand-alone selling prices of the elements of its service offerings as follows:

- Wireless services – Based on the actual selling price U.S. Cellular offers when such plan is sold on a stand-alone basis, or if the plan is not sold on a stand-alone basis, U.S. Cellular's estimate of the price of such plan based on similar plans that are sold on a stand-alone basis.
- Wireless devices – Based on the selling price of the respective wireless device when it is sold on a stand-alone basis.
- Phone Replacement – Based on U.S. Cellular's estimate of the price of this service if it were sold on a stand-alone basis, which was calculated by estimating the cost of this program plus a reasonable margin.
- Loyalty reward points – By estimating the retail price of the products and services for which points may be redeemed and dividing such amount by the number of loyalty points required to receive such products and services. This is calculated on a weighted average basis and requires U.S. Cellular to estimate the percentage of loyalty points that will be redeemed for each product or service.

U.S. Cellular follows the deferred revenue method of accounting for its loyalty reward program. Under this method, revenue allocated to loyalty reward points is deferred. Revenue is recognized at the time of customer redemption or when such points have been depleted via an account maintenance charge. U.S. Cellular periodically reviews and revises the redemption and depletion rates as appropriate based on history and related future expectations. As of December 31, 2013, U.S. Cellular estimated loyalty reward points breakage based on actuarial estimates and recorded a $7.4 million change in estimate, which reduced Customer deposits and deferred revenues in the Consolidated Balance Sheet and increased Operating revenues in the Consolidated Statement of Operations.

In the fourth quarter of 2013, U.S. Cellular issued loyalty reward points with a value of $43.5 million as a loyalty bonus in recognition of the inconvenience experienced by customers during U.S. Cellular's recent billing system conversion. The value of the loyalty bonus reduced Operating revenues in the Consolidated Statement of Operations and increased Customer deposits and deferred revenues in the Consolidated Balance Sheet.

As of December 31, 2013 and 2012, U.S. Cellular had deferred revenue related to loyalty reward points outstanding of $116.2 million and $56.6 million, respectively. These amounts are recorded in Customer deposits and deferred revenues (a current liability account) in the Consolidated Balance Sheet, as customers may redeem their reward points within the current period.

Cash-based discounts and incentives, including discounts to customers who pay their bills through the use of on-line bill payment methods, are recognized as a reduction of Operating revenues concurrently with the associated revenue, and are allocated to the various products and services in the bundled offering based on their respective relative selling price.

In order to provide better control over wireless device quality, U.S. Cellular sells wireless devices to agents. U.S. Cellular pays rebates to agents at the time an agent activates a new customer or retains an existing customer in a transaction involving a wireless device. U.S. Cellular accounts for these rebates by reducing revenues at the time of the wireless device sale to the agent rather than at the time the agent activates a new customer or retains a current customer. Similarly, U.S. Cellular offers certain wireless device sales rebates and incentives to its retail customers and records the revenue net of the corresponding rebate or incentive. The total potential rebates and incentives are reduced by U.S. Cellular's estimate of rebates that will not be redeemed by customers based on historical experience of such redemptions.

GAAP requires that activation fees charged with the sale of equipment and service be allocated to the equipment and service based upon the relative selling prices of each item. Device activation fees charged at agent locations, where U.S. Cellular does not also sell a wireless device to the customer, are deferred and recognized over the average device life. Device activation fees charged as a result of handset sales at Company-owned retail stores are recognized at the time the handset is delivered to the customer.

ETC revenues recognized in the reporting period represent the amounts which U.S. Cellular is entitled to receive for such period, as determined and approved in connection with U.S. Cellular's designation as an ETC in various states.

TDS Telecom

Revenue from Wireline operations consists primarily of charges for:

- Providing telephone voice services;
- Compensation for carrying long-distance voice and data traffic on TDS Telecom's local telephone networks, including compensation from inter-state and intra-state regulatory recovery mechanisms;
- Leasing, selling, installing and maintaining customer premise equipment;
- Providing broadband services;
- Providing hosted Voice over Internet Protocol ("VoIP") solutions and other hosted services to business;
- Reselling long-distance services; and
- Selling Internet Protocol Television ("IPTV") and satellite video service.

Cable operating revenues consist of charges for:

- Providing basic and pay-per-view video services;
- Providing broadband services; and
- Providing Internet Protocol ("IP") telephone voice services.

HMS operating revenues consist of charges for:

- Providing colocation;
- Providing dedicated hosting;
- Providing hosted application management and cloud computing services; and
- Planning, engineering, procurement, installation, sales and management of IT infrastructure hardware solutions.

Revenues related to services are recognized as services are rendered. Activation fees charged are deferred and recognized over the average customer's service period. Revenues related to products are recognized when title and risk of loss transfer from TDS Telecom to the customer.

TDS Telecom offers some products and services that are provided by third-party vendors, primarily satellite video service through its Wireline business, and third-party equipment maintenance contracts through its HMS business. TDS records these service revenues on a net basis.

TDS Telecom offers discounts and incentives to customers who receive certain groupings of products and services (bundled arrangements). These discounts are recognized concurrently with the associated revenue and are allocated to the various products and services in the bundled offering based on their relative selling prices.

Discounts and cash incentives offered by TDS Telecom that are given directly to customers are recorded in the financial statements as a reduction of Operating revenues.

TDS Telecom earns Wholesale revenues in its Wireline segment as a result of its participation in revenue pools with other telephone companies for interstate revenue and for certain intrastate revenue. Such pools are funded by long distance revenue and/or access charges within state jurisdictions and by access charges in the interstate jurisdiction. Wholesale revenues earned through the various pooling processes are recorded based on estimates following the National Exchange Carrier Association's rules as approved by the FCC.

Amounts Collected from Customers and Remitted to Governmental Authorities

TDS records amounts collected from customers and remitted to governmental authorities net within a tax liability account if the tax is assessed upon the customer and TDS merely acts as an agent in collecting the tax on behalf of the imposing governmental authority. 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 $131.0 million, $152.4 million and $141.3 million for 2013, 2012 and 2011, respectively.

Advertising Costs

TDS expenses advertising costs as incurred. Advertising costs totaled $212.8 million, $240.9 million and $267.7 million in 2013, 2012 and 2011, respectively.

Income Taxes

TDS files a consolidated federal income tax return. Deferred taxes are computed using the liability method, whereby deferred tax assets are recognized for future deductible temporary differences and operating loss carryforwards, and deferred tax liabilities are recognized for future taxable temporary differences. Both deferred tax assets and liabilities are measured using the tax rates anticipated to be in effect when the temporary differences reverse. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. TDS evaluates income tax uncertainties, assesses the probability of the ultimate settlement with the applicable taxing authority and records an amount based on that assessment.

Stock-Based Compensation

TDS has established long-term incentive plans, dividend reinvestment plans, a Non-Employee Director compensation plan, and previously had an employee stock purchase plan before this was terminated in the fourth quarter of 2011. See Note 16 — Stock-based Compensation for additional information. The dividend reinvestment plan of TDS is not considered a compensatory plan and, therefore, recognition of compensation costs for grants made under this plan is not required. All other plans are considered compensatory plans; therefore, recognition of compensation costs for grants made under these plans is required.

TDS values its share-based payment transactions using a Black-Scholes valuation model. Stock-based compensation cost recognized during the period is based on the portion of the share-based payment awards that are ultimately expected to vest. Accordingly, stock-based compensation cost recognized has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures and expected life are estimated based on historical experience related to similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. TDS believes that its historical experience provides the best estimates of future pre-vesting forfeitures and future expected life. The expected volatility assumption is based on the historical volatility of TDS' common stock over a period commensurate with the expected life. The dividend yield assumption is equal to the dividends declared in the most recent year as a percentage of the share price on the date of grant. The risk-free interest rate assumption is determined using the U.S. Treasury Yield Curve Rate with a term length that approximates the expected life of the stock options.

Beginning with grants in 2013, newly granted TDS stock option awards cliff vest in three years. TDS stock option awards granted prior to 2013 and U.S. Cellular stock option awards vest on an annual basis in three separate tranches. Compensation cost is recognized on a straight-line basis over the requisite service period, which was generally the vesting period, for each separate vesting portion of the awards as if the awards were, in-substance, multiple awards (graded vesting attribution method).

Operating Leases

TDS is a party to various lease agreements for office space, retail stores, cell sites, certain telecommunication and data center facilities and equipment that are accounted for as operating leases. Certain leases have renewal options and/or fixed rental increases. Renewal options that are reasonably assured of exercise are included in determining the lease term. TDS accounts for certain operating leases that contain rent abatements, lease incentives and/or fixed rental increases by recognizing lease revenue and expense on a straight-line basis over the lease term.

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.

NOTE 2 FAIR VALUE MEASUREMENTS

As of December 31, 2013 and 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	December 31, 2013		December 31, 2012	
		Book Value	Fair Value	Book Value	Fair Value
(Dollars in thousands)					
Cash and cash equivalents	1	$ 830,014	$ 830,014	$ 740,481	$ 740,481
Short-term investments					
U.S. Treasury Notes	1	50,104	50,104	115,700	115,700
Long-term investments					
U.S. Treasury Notes	1	-	-	50,305	50,339
Long-term debt					
Retail	1	1,178,250	1,048,010	1,178,250	1,238,204
Institutional and other	2	537,454	512,635	538,657	589,435

Short-term investments are designated as held-to-maturity investments and recorded at amortized cost in the Consolidated Balance Sheet. Long-term debt excludes capital lease obligations and the current portion of Long-term debt.

The fair values of Cash and cash equivalents and Short-term investments approximate their book values due to the short-term nature of these financial instruments. The fair 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 0.00% to 7.35% at December 31, 2013 and 0.00% to 6.09% at December 31, 2012.

As of December 31, 2013 and 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.

NOTE 3 INCOME TAXES

TDS' income taxes balances at December 31, 2013 and 2012 were as follows:

December 31, (Dollars in thousands)	2013	2012
Federal income taxes (payable)	$ (20,288)	$ (5,455)
State income taxes receivable	2,397	9,625

Income tax expense (benefit) is summarized as follows:

Year Ended December 31, (Dollars in thousands)	2013	2012	2011
Current			
Federal	$ 181,579	$ 9,705	$ (94,627)
State	11,614	5,092	5,583
Deferred			
Federal	(65,970)	61,113	214,722
State	(1,180)	(2,328)	(12,175)
	$ 126,043	$ 73,582	$ 113,503

A reconciliation of TDS' income tax expense computed at the statutory rate to the reported income tax expense, and the statutory federal income tax expense rate to TDS' effective income tax expense rate is as follows:

Year Ended December 31,	2013		2012		2011	
	Amount	Rate	Amount	Rate	Amount	Rate
(Dollars in millions)						
Statutory federal income tax expense and rate	$ 102.5	35.0 %	$ 68.7	35.0 %	$ 127.3	35.0 %
State income taxes, net of federal benefit (1)	10.5	3.6	8.4	4.2	(20.9)	(5.7)
Effect of noncontrolling interests	(1.0)	(0.4)	-	-	(3.0)	(0.8)
Gains (losses) on investments and sale of assets (2)	14.9	5.1	-	-	-	-
Correction of deferred taxes (3)	-	-	(6.1)	(3.1)	6.0	1.6
Other differences, net	(0.9)	(0.3)	2.6	1.4	4.1	1.1
Total income tax expense and rate	$ 126.0	43.0 %	$ 73.6	37.5 %	$ 113.5	31.2 %

(1) Net state income taxes include changes in the valuation allowance. The 2011 benefit primarily relates to the ability to utilize net operating losses as a result of state income tax law changes. In addition, state tax benefits related to the settlement of state tax audits and the expiration of statutes of limitations are included in 2013, 2012 and 2011.

(2) Represents 2013 tax expense related to the NY1 & NY2 Deconsolidation and the Divestiture Transaction.

(3) TDS recorded immaterial adjustments to correct deferred tax balances in 2012 and 2011 related to tax basis and law changes that related to periods prior to 2012 and 2011, respectively.

TDS' current Net deferred income tax asset totaled $106.1 million and $43.4 million at December 31, 2013 and 2012, respectively, and primarily represents the deferred tax effects of the deferred revenue for the loyalty reward points, the allowance for doubtful accounts on customer receivables, and accrued liabilities.

TDS' noncurrent deferred income tax assets and liabilities at December 31, 2013 and 2012 and the temporary differences that gave rise to them were as follows:

December 31, **(Dollars in thousands)**	**2013**	**2012**
Noncurrent deferred tax assets		
Net operating loss (" NOL ") carryforwards	$ 121,651	$ 121,111
Stock-based compensation	50,563	53,330
Compensation and benefits - other	12,681	32,484
Deferred rent	20,500	16,862
Other	32,444	32,654
	237,839	256,441
Less valuation allowance	(70,609)	(69,108)
Total noncurrent deferred tax assets	167,230	187,333
Noncurrent deferred tax liabilities		
Property, plant and equipment	637,090	666,201
Licenses/intangibles	251,578	250,860
Partnership investments	136,581	127,331
Other	4,956	5,521
Total noncurrent deferred tax liabilities	1,030,205	1,049,913
Net noncurrent deferred income tax liability	$ 862,975	$ 862,580

At December 31, 2013, TDS and certain subsidiaries had $1,951.4 million of state NOL carryforwards (generating a $100.7 million deferred tax asset) available to offset future taxable income. The state NOL carryforwards expire between 2014 and 2033. Certain subsidiaries had federal NOL carryforwards (generating a $21.0 million deferred tax asset) available to offset their future taxable income. The federal NOL carryforwards expire between 2018 and 2033. A valuation allowance was established for certain state NOL carryforwards and federal NOL carryforwards since it is more likely than not that a portion of such carryforwards will expire before they can be used.

A summary of TDS' deferred tax asset valuation allowance is as follows:

(Dollars in thousands)	**2013**	**2012**	**2011**
Balance at January 1,	$ 70,502	$ 49,686	$ 71,014
Charged to income tax expense	1,954	5,268	(28,511)
Charged to other accounts	6,608	15,548	7,183
Balance at December 31,	$ 79,064	$ 70,502	$ 49,686

As of December 31, 2013, the valuation allowance reduced current deferred tax assets by $8.5 million and noncurrent deferred tax assets by $70.6 million.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(Dollars in thousands)	**2013**	**2012**	**2011**
Unrecognized tax benefits balance at January 1,	$ 28,420	$ 28,841	$ 34,002
Additions for tax positions of current year	6,388	7,027	4,369
Additions for tax positions of prior years	1,858	1,673	171
Reductions for tax positions of prior years	(467)	(7)	(1,973)
Reductions for settlements of tax positions	(1,337)	(21)	(976)
Reductions for lapses in statutes of limitations	(4,472)	(9,093)	(6,752)
Unrecognized tax benefits balance at December 31,	$ 30,390	$ 28,420	$ 28,841

Unrecognized tax benefits are included in Accrued taxes and Other deferred liabilities and credits in the Consolidated Balance Sheet. If these benefits were recognized, they would have reduced income tax expense in 2013, 2012 and 2011 by $19.8 million, $18.6 million and $18.2 million, respectively, net of the federal benefit from state income taxes. As of December 31, 2013, TDS does not expect unrecognized tax benefits to change significantly in the next twelve months.

TDS recognizes accrued interest and penalties related to unrecognized tax benefits in Income tax expense. The amounts charged to Income tax expense related to interest and penalties resulted in an expense of $0.7 million in 2013, and a benefit of $1.5 million and $2.5 million in 2012 and 2011, respectively. Net accrued interest and penalties were $12.4 million and $13.2 million at December 31, 2013 and 2012, respectively.

TDS and its subsidiaries file federal and state income tax returns. TDS remains subject to federal income tax audits for the tax years after 2011. With only a few exceptions, TDS is no longer subject to state income tax audits for years prior to 2009.

NOTE 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:

Year Ended December 31, **(Dollars and shares in thousands, except earnings per share)**	**2013**	**2012**	**2011**
Basic earnings per share attributable to TDS shareholders:			
Net income available to common shareholders of TDS used in basic earnings per share	$ 141,878	$ 81,811	$ 200,516
Adjustments to compute diluted earnings:			
Noncontrolling interest adjustment	(1,058)	(640)	(989)
Preferred dividend adjustment	49	-	49
Net income attributable to common shareholders of TDS used in diluted earnings per share	$ 140,869	$ 81,171	$ 199,576
Weighted average number of shares used in basic earnings per share			
Common Shares	101,339	101,532	101,471
Series A Common Shares	7,151	7,139	7,091
Total	108,490	108,671	108,562
Effects of dilutive securities:			
Stock options	209	11	262
Restricted stock units	375	255	214
Preferred shares	58	-	60
Weighted average number of shares used in diluted earnings per share	109,132	108,937	109,098
Basic earnings per share attributable to TDS shareholders	$ 1.31	$ 0.75	$ 1.85
Diluted earnings per share attributable to TDS shareholders	$ 1.29	$ 0.75	$ 1.83

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

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

Year Ended December 31,	2013	2012	2011
(Shares in thousands)			
Stock options	7,120	8,130	3,785
Restricted stock units	171	154	141
Preferred shares	-	57	-

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

U.S. Cellular 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 did not affect spectrum licenses held by U.S. Cellular or variable interest entities ("VIEs") that were not 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 estimated costs, 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 $175 million of the Sprint Cost Reimbursement will be recorded in (Gain) loss on sale of business and other exit costs, net and up to $25 million of the Sprint Cost Reimbursement will be recorded in Cost of services and products in the Consolidated Statement of Operations. For the year ended December 31, 2013, $10.6 million of the Sprint Cost Reimbursement had been received and recorded in Cash received from divestitures in the Consolidated Statement of Cash Flows.

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

(Dollars in thousands)	Expected Period of Recognition	Projected Range		Cumulative Amount Recognized as of December 31, 2013	Actual Amount Recognized Year Ended December 31, 2013	Actual Amount Recognized Three Months Ended December 31, 2013	Actual Amount Recognized Three Months and Year Ended December 31, 2012
(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)	(175,000)	(47,641)	(47,641)	(43,420)	-
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	2012-2014	10,000	14,000	10,675	3	(51)	10,672
Employee related costs including severance, retention and outplacement	2012-2014	12,000	18,000	14,262	1,653	(809)	12,609
Contract termination costs	2012-2014	110,000	160,000	59,584	59,525	40,744	59
Transaction costs	2012-2014	5,000	6,000	5,565	4,428	347	1,137
Total (Gain) loss on sale of business and other exit costs, net		$ (302,927)	$ (296,927)	$ (277,482)	$ (301,959)	$ (3,189)	$ 24,477
Depreciation, amortization and accretion expense							
Incremental depreciation, amortization and accretion, net of salvage values	2012-2014	200,000	225,000	198,571	178,513	44,513	20,058
(Increase) decrease in Operating income		$ (102,927)	$ (71,927)	$ (78,911)	$ (123,446)	$ 41,324	$ 44,535

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:

		Year Ended December 31, 2013			
(Dollars in thousands)	**Balance December 31, 2012**	**Costs Incurred**	**Cash Settlements (1)**	**Adjustments (2)**	**Balance December 31, 2013**
Accrued compensation					
Employee related costs including severance, retention, outplacement	$ 12,305	$ 6,853	$ (11,905)	$ (5,200)	$ 2,053
Other current liabilities					
Contract termination costs	$ 30	$ 22,675	$ (8,713)	$ -	$ 13,992
Other deferred liabilities and credits					
Contract termination costs	$ -	$ 34,283	$ (3,434)	$ -	$ 30,849

		Year Ended December 31, 2012			
(Dollars in thousands)	**Balance November 6, 2012**	**Costs Incurred**	**Cash Settlements (1)**	**Adjustments (2)**	**Balance December 31, 2012**
Accrued compensation					
Employee related costs including severance, retention, outplacement	$ -	$ 12,609	$ (304)	$ -	$ 12,305
Other current liabilities					
Contract termination costs	$ -	$ 59	$ (29)	$ -	$ 30

(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 October 4, 2013, TDS acquired 100% of the outstanding shares of MSN Communications, Inc. ("MSN") for $43.6 million in cash. MSN is an information technology solutions provider whose service offerings complement the HMS portfolio of products. MSN is included in the HMS 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. At the time of the sale, a $250.6 million gain was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations.

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 in the first quarter of 2014. In accordance with GAAP, the book value of the license has been accounted for and disclosed as "held for sale" in the Consolidated Balance Sheet at December 31, 2013.

On August 1, 2013, TDS Telecom acquired substantially all of the assets of Baja for $264.1 million in cash. Baja is a cable company that operates in markets primarily 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 Cable segment for reporting purposes.

On November 20, 2012, U.S. Cellular acquired seven 700 MHz licenses covering portions of Illinois, Michigan, Minnesota, Missouri, Nebraska, Oregon, Washington and Wisconsin for $57.7 million.

On August 15, 2012, U.S. Cellular acquired four 700 MHz licenses covering portions of Iowa, Kansas, Missouri, Nebraska and Oklahoma for $34.0 million.

On June 11, 2012, TDS paid $46.1 million in cash to purchase 100% of the outstanding shares of Vital Support Systems, LLC ("Vital"). Vital is an information technology solutions provider whose service offerings complement the HMS portfolio of products. Vital is included in the HMS segment for reporting purposes.

On March 14, 2012, U.S. Cellular sold the majority of the assets and liabilities of a wireless market for $49.8 million in cash. At the time of the sale, a $4.2 million gain was recorded in (Gain) loss on sale of business and other exit costs, net in the Consolidated Statement of Operations. On May 9, 2011, pursuant to certain required terms of the partnership agreement, U.S. Cellular paid $24.6 million in cash to purchase the remaining ownership interest in this wireless market in which it previously held a 49% noncontrolling interest. In connection with the acquisition of the remaining interest, a $13.4 million gain was recorded to adjust the carrying value of this 49% investment to its fair value of $25.7 million based on an income approach valuation method. The gain was recorded in Gain (loss) on investments in the Consolidated Statement of Operations in 2011.

On September 30, 2011, U.S. Cellular completed an exchange whereby U.S. Cellular received eighteen 700 MHz spectrum licenses covering portions of Idaho, Illinois, Indiana, Kansas, Nebraska, Oregon and Washington in exchange for two PCS spectrum licenses covering portions of Illinois and Indiana. The exchange of licenses provided U.S. Cellular with additional spectrum to meet anticipated future capacity and coverage requirements in several of its markets. No cash, customers, network assets, other assets or liabilities were included in the exchange. As a result of this transaction, TDS recognized a gain of $11.8 million, representing the difference between the fair value of the licenses received, calculated using a market approach valuation method, and the carrying value of the licenses surrendered. This gain was recorded in (Gain) loss on license sales and exchanges in the Consolidated Statement of Operations for the year ended December 31, 2011.

On September 23, 2011, pursuant to a plan of reorganization in the United States Bankruptcy Court for the Western District of Wisconsin, TDS acquired 63% of Airadigm and a note for $15.5 million in satisfaction of loans made by TDS to Airadigm and interests in Airadigm acquired by TDS from third-parties. Airadigm is a Wisconsin-based wireless service provider. The noncontrolling interest was valued at $0.4 million based on an income approach valuation method. TDS recognized a gain of $12.7 million as a result of the transaction which was recorded in Gain (loss) on investments in the Consolidated Statement of Operations for year ended December 31, 2011. Pursuant to the plan of reorganization, at the acquisition date Airadigm owed $32.7 million to the FCC. This obligation was paid in September 2011. On March 13, 2013, TDS acquired the remaining 37% ownership interest in Airadigm for $3.5 million. At this time, Airadigm operates independently from U.S. Cellular. Airadigm's financial results are included in "Non-Reportable segment" for reporting purposes.

On July 1, 2011, TDS paid $95.9 million in cash to purchase 100% of the outstanding shares of OneNeck IT Services Corporation ("OneNeck IT Services"). OneNeck IT Services is a provider of hosted application management and managed IT hosting services to middle market businesses, which complements the HMS portfolio of products. OneNeck IT Services is included in the HMS segment for reporting purposes.

TDS' acquisitions in 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	Franchise Rights	Intangible Assets Subject to Amortization (3)	Net Tangible Assets/ (Liabilities)
2013						
U.S. Cellular licenses	$ 16,540	$ -	$ 16,540	$ -	$ -	$ -
TDS Telecom cable business	264,069	61,712	-	123,668	11,542	67,147
TDS Telecom HMS business	43,557	15,203	-	-	17,183	11,171
Total	$ 324,166	$ 76,915	$ 16,540	$ 123,668	$ 28,725	$ 78,318
2012						
U.S. Cellular licenses	$ 122,690	$ -	$ 122,690	$ -	$ -	$ -
TDS Telecom HMS business	46,126	20,364	-	-	20,300	5,462
Total	$ 168,816	$ 20,364	$ 122,690	$ -	$ 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 as follows: 2013: 2.9 years for TDS Telecom cable business and 10 years for TDS Telecom HMS business; 2012: 8.1 years for TDS Telecom HMS business.

At December 31, 2013 and 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)
2013							
Divestiture of Spectrum Licenses	$ -	$ 16,027	$ -	$ -	$ -	$ 16,027	$ -
2012							
Divestiture Transaction	$ -	$ 140,599	$ 19,474	$ -	$ -	$ 160,073	$ 19,594
Bolingbrook Customer Care Center (3)	-	-	-	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) Effective January 1, 2013, U.S. Cellular transferred its Bolingbrook Customer Care Center operations to an existing third party vendor.

NOTE 6 INTANGIBLE ASSETS

Changes in TDS' Licenses, Goodwill and Franchise rights are presented below. See Note 5 — Acquisitions, Divestitures and Exchanges for information regarding transactions which affected Licenses, Goodwill and Franchise rights during the periods. 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	Wireline	Non-Reportable Segment	Total
Balance December 31, 2012	$ 1,462,019	$ 2,800	$ 15,220	$ 1,480,039
Acquisitions	16,540	-	-	16,540
Divestitures	(59,419)	-	-	(59,419)
Transferred to Assets held for sale	(16,027)	-	-	(16,027)
NY1 & NY2 Deconsolidation	(592)	-	-	(592)
Other	3,238	-	-	3,238
Balance December 31, 2013	$ 1,405,759	$ 2,800	$ 15,220	$ 1,423,779
Balance December 31, 2011	$ 1,475,994	$ 2,800	$ 15,220	$ 1,494,014
Acquisitions	122,690	-	-	122,690
Transferred to Assets held for sale	(140,599)	-	-	(140,599)
Other	3,934	-	-	3,934
Balance December 31, 2012	$ 1,462,019	$ 2,800	$ 15,220	$ 1,480,039

Goodwill

(Dollars in thousands)	U.S. Cellular	Wireline	Cable	HMS	Non-Reportable Segment	Total
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	-	-	61,712	15,203	-	76,915
Divestitures	(135)	-	-	-	-	(135)
NY1 & NY2 Deconsolidation	(37,131)	-	-	-	-	(37,131)
Balance December 31, 2013	$ 232,041	$ 420,458	$ 61,712	$ 118,830	$ 3,802	$ 836,843
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 (1)	-	-	-	-	(515)	(515)
Transferred to Assets held for sale	(19,474)	-	-	-	-	(19,474)
Other	-	(258)	-	-	-	(258)
Balance December 31, 2012	$ 269,307	$ 420,458	$ -	$ 103,627	$ 3,802	$ 797,194

(1) During the second quarter of 2012, a sustained decrease in TDS' stock price resulted in a triggering event, as defined by GAAP, requiring an interim impairment test of Licenses and Goodwill as of June 30, 2012. Based on this test, TDS concluded that the entire amount of Goodwill related to Airadigm was impaired resulting in an impairment loss of $0.5 million and no impairment of Licenses.

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.

Franchise rights

(Dollars in thousands)	Cable
Balance December 31, 2012	$ -
Acquisitions	123,668
Balance December 31, 2013	$ 123,668

NOTE 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 as shown in the following table:

December 31, (Dollars in thousands)	2013	2012
Equity method investments:		
Capital contributions, loans, advances and adjustments	$ 132,629	$ 21,543
Cumulative share of income	1,186,900	1,050,618
Cumulative share of distributions	(1,033,087)	(907,509)
	286,442	164,652
Cost method investments	15,330	15,269
Total investments in unconsolidated entities	$ 301,772	$ 179,921

Equity in earnings of unconsolidated entities totaled $132.7 million, $92.9 million and $82.5 million in 2013, 2012 and 2011, respectively; of those amounts, TDS' investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed $78.4 million, $67.2 million and $55.3 million in 2013, 2012 and 2011, respectively. TDS held a 5.5% ownership interest in the LA Partnership throughout and at the end of each of these years.

The following tables, which are based on information provided in part by third parties, summarize the combined assets, liabilities and equity, and the combined results of operations of TDS' equity method investments:

December 31, (Dollars in thousands)	2013	2012
Assets		
Current	$ 520,804	$ 477,673
Due from affiliates	408,735	298,707
Property and other	2,080,436	1,951,887
	$ 3,009,975	$ 2,728,267
Liabilities and Equity		
Current liabilities	$ 355,167	$ 353,044
Deferred credits	89,198	84,672
Long-term liabilities	31,605	33,856
Long-term capital lease obligations	707	405
Partners' capital and shareholders' equity	2,533,298	2,256,290
	$ 3,009,975	$ 2,728,267

Year Ended December 31, (Dollars in thousands)	2013	2012	2011
Results of Operations			
Revenues	$ 6,239,200	$ 5,825,150	$ 5,540,220
Operating expenses	4,492,372	4,381,731	4,301,758
Operating income	1,746,828	1,443,419	1,238,462
Other income, net	4,019	7,190	960
Net income	$ 1,750,847	$ 1,450,609	$ 1,239,422

NY1 & NY2 Deconsolidation

U.S. Cellular holds a 60.00% interest in St. Lawrence Seaway RSA Cellular Partnership ("NY1") and a 57.14% interest in New York RSA 2 Cellular Partnership ("NY2") (together with NY1, the "Partnerships"). The remaining interests in the Partnerships are held by Cellco Partnership d/b/a Verizon Wireless ("Verizon Wireless"). 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 ("NY1 & NY2 Deconsolidation"). 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 (loss) 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 and incorporates 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%

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.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

U.S. Cellular's Property, plant and equipment in service and under construction, and related accumulated depreciation and amortization, as of December 31, 2013 and 2012 were as follows:

December 31,	Useful Lives (Years)	2013	2012
(Dollars in thousands)			
Land	N/A	$ 36,266	$ 33,947
Buildings	20	304,272	341,852
Leasehold and land improvements	1-30	1,197,520	1,188,720
Cell site equipment	6-25	3,306,575	3,100,916
Switching equipment	1-8	1,161,976	1,155,114
Office furniture and equipment	3-5	539,248	535,656
Other operating assets and equipment	5-25	92,456	128,290
System development	3-7	962,698	631,184
Work in process	N/A	116,501	362,749
		7,717,512	7,478,428
Accumulated depreciation and amortization		(4,860,992)	(4,455,840)
		$ 2,856,520	$ 3,022,588

U.S. Cellular's depreciation and amortization expense totaled $791.1 million, $597.7 million and $565.1 million in 2013, 2012 and 2011, respectively. As a result of the Divestiture Transaction, U.S. Cellular recognized incremental depreciation and amortization in 2012 and 2013. See Note 5 – Acquisitions, Divestitures and Exchanges for additional information.

TDS Telecom's (including Wireline, Cable, and HMS) Property, plant and equipment in service and under construction, and related accumulated depreciation, as of December 31, 2013 and 2012 were as follows:

December 31,	Useful Lives (Years)	2013	2012
(Dollars in thousands)			
Land	N/A	$ 12,794	$ 9,004
Buildings	5-40	148,800	147,177
Cable and wire	15-35	1,523,123	1,445,270
Network electronic equipment	3-12	1,229,941	1,171,461
Office furniture and equipment	5-10	74,507	71,887
Other equipment	5-12	94,438	85,486
System development	3-7	230,416	196,185
Work in process	N/A	88,614	87,043
		3,402,633	3,213,513
Accumulated depreciation and amortization		(2,417,999)	(2,279,325)
		$ 984,634	$ 934,188

The provision for certain Wireline companies' depreciation as a percentage of depreciable property was 5.3% in 2013, 5.6% in 2012 and 5.7% in 2011. TDS Telecom's depreciation and amortization expense related to Property, plant and equipment totaled $182.6 million, $177.3 million and $168.2 million in 2013, 2012 and 2011, respectively.

Corporate and other Property, plant and equipment in service and under construction, and related accumulated depreciation, as of December 31, 2013 and 2012 were as follows:

December 31,	2013	2012
(Dollars in thousands)		
Property, plant and equipment	$ 119,659	$ 116,558
Accumulated depreciation and amortization	(82,669)	(76,068)
Total	$ 36,990	$ 40,490

Corporate and other fixed assets consist of assets at the TDS corporate offices, Suttle-Straus and Airadigm. Corporate and other depreciation and amortization expense related to Property, plant and equipment totaled $10.7 million, $10.3 million and $8.3 million in 2013, 2012 and 2011, respectively.

In 2013, 2012 and 2011, (Gain) loss on asset disposals, net included charges of $30.8 million, $19.7 million and $11.0 million, respectively, related to disposals of assets, trade-ins of older assets for replacement assets and other retirements of assets from service in the normal course of business.

NOTE 9 ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations are included in Other deferred liabilities and credits and Other current liabilities in the Consolidated Balance Sheet.

In 2013 and 2012, U.S. Cellular and TDS Telecom performed a review of the assumptions and estimated costs related to asset retirement obligations. The results of the reviews (identified as "Revisions in estimated cash outflows") and other changes in asset retirement obligations during 2013 and 2012, including the Divestiture Transaction, were as follows:

(Dollars in thousands)	U.S. Cellular	TDS Telecom	Other	TDS Consolidated
Balance December 31, 2012	$ 179,607	$ 69,969	$ 4,034	$ 253,610
Additional liabilities accrued	635	257	-	892
Revisions in estimated cash outflows	6,268	(2,562)	-	3,706
Acquisition of assets	-	3,410	-	3,410
Disposition of assets (1)	(3,534)	(577)	-	(4,111)
Accretion expense (2)	12,592	4,898	241	17,731
Balance December 31, 2013 (3)	$ 195,568	$ 75,395	$ 4,275	$ 275,238
Balance December 31, 2011	$ 143,402	$ 65,209	$ 3,806	$ 212,417
Additional liabilities accrued	5,578	367	-	5,945
Revisions in estimated cash outflows (4)	22,588	-	-	22,588
Disposition of assets	(2,674)	(298)	-	(2,972)
Accretion expense (2)	10,713	4,691	228	15,632
Balance December 31, 2012	$ 179,607	$ 69,969	$ 4,034	$ 253,610

(1) Included $2.0 million of incremental disposition costs related to the Divestiture Transaction in 2013.

(2) Included $1.1 million and $0.2 million of incremental accretion related to the Divestiture Transaction in 2013 and 2012, respectively.

(3) In 2013, as a result of the accelerated settlement dates of certain asset retirement obligations related to the Divestiture Transaction, TDS reclassified $37.7 million of its asset retirement obligations from Other deferred liabilities and credits to Other current liabilities.

(4) Included increases of $14.9 million as a result of changes in expected settlement dates related to the Divestiture Transaction in 2012.

NOTE 10 DEBT

Revolving Credit Facilities

At December 31, 2013, TDS and U.S. Cellular had revolving credit facilities available for general corporate purposes. Amounts under the revolving credit facilities may be borrowed, repaid and reborrowed from time to time until maturity. Neither TDS nor U.S. Cellular borrowed under their current or previous revolving credit facilities in 2013, 2012 or 2011 except for letters of credit.

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

The maturity date of any borrowings under the TDS and U.S. Cellular revolving credit facilities would accelerate in the event of a change in control.

The following table summarizes the terms of such revolving credit facilities as of December 31, 2013:

(Dollars in millions)	**TDS**	**U.S. Cellular**
Maximum borrowing capacity	$ 400.0	$ 300.0
Letters of credit outstanding (1)	$ 0.3	$ 17.6
Amount borrowed	$ -	$ -
Amount available for use	$ 399.7	$ 282.4
Borrowing rate: One-month London Interbank Offered Rate (" LIBOR ") plus contractual spread (2)	1.67 %	1.67 %
LIBOR	0.17 %	0.17 %
Contractual spread	1.50 %	1.50 %
Range of commitment fees on amount available for use (3)		
Low	0.13 %	0.13 %
High	0.30 %	0.30 %
Agreement date	December 2010	December 2010
Maturity date	December 2017	December 2017
Fees incurred attributable to the Revolving Credit Facility are as follows:		
Fees incurred as a percent of Maximum borrowing capacity for 2013	0.21 %	0.25 %
Fees incurred, amount		
2013	$ 0.9	$ 0.8
2012	$ 1.3	$ 1.1
2011	$ 1.5	$ 1.2

(1) In June 2013, U.S. Cellular provided $17.4 million in letters of credit to the FCC in connection with U.S. Cellular's winning bids in Auction 901. See Note 19 — Supplemental Cash Flow Disclosures for additional information on Auction 901.

(2) Borrowings under the revolving credit facility bear interest at LIBOR plus a contractual spread based on TDS' or U.S. Cellular's credit rating or, at TDS' or U.S. Cellular's option, an alternate "Base Rate" as defined in the revolving credit agreement. TDS and U.S. Cellular may select a borrowing period of either one, two, three or six months (or other period of twelve months or less if requested by TDS or U.S. Cellular and approved by the lenders). If TDS or U.S. Cellular provides notice of intent to borrow less than three business days in advance of a borrowing, interest on borrowing is at the Base Rate plus the contractual spread.

(3) The revolving credit facility has commitment fees based on the unsecured senior debt ratings assigned to TDS and U.S. Cellular by certain ratings agencies.

The continued availability of the revolving credit facilities requires TDS and U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing. TDS and U.S. Cellular believe they were in compliance as of December 31, 2013 with all covenants and other requirements set forth in the revolving credit facilities.

In connection with U.S. Cellular's revolving credit facility, TDS and U.S. Cellular entered into a subordination agreement dated December 17, 2010 together with the administrative agent for the lenders under U.S. Cellular's revolving credit agreement. Pursuant to this subordination agreement, (a) any consolidated funded indebtedness from U.S. Cellular to TDS will be unsecured and (b) any (i) consolidated funded indebtedness from U.S. Cellular to TDS (other than "refinancing indebtedness" as defined in the subordination agreement) in excess of $105,000,000, and (ii) refinancing indebtedness in excess of $250,000,000, will be subordinated and made junior in right of payment to the prior payment in full of obligations to the lenders under U.S. Cellular's revolving credit agreement. As of December 31, 2013, U.S. Cellular had no outstanding consolidated funded indebtedness or refinancing indebtedness that was subordinated to the revolving credit agreement pursuant to the subordination agreement.

At December 31, 2013, TDS had recorded $6.1 million of issuance costs related to the revolving credit facilities which is included in Other assets and deferred charges in the Consolidated Balance Sheet.

Long-term debt as of December 31, 2013 and 2012 was as follows:

December 31, **(Dollars in thousands)**	**Issuance date**	**Maturity date**	**Call date**	**2013**	**2012**
TDS:					
Unsecured Senior Notes					
6.625%	March 2005	March 2045	March 2010	$ 116,250	$ 116,250
6.875%	November 2010	November 2059	November 2015	225,000	225,000
7.0%	March 2011	March 2060	March 2016	300,000	300,000
5.875%	November 2012	December 2061	December 2017	195,000	195,000
Purchase contract at 6.0%	October 2001	October 2021		1,097	1,097
Total Parent				837,347	837,347
Subsidiaries:					
U.S. Cellular -					
Unsecured Senior Notes					
6.7%	December 2003 and June 2004	December 2033	December 2003	544,000	544,000
Less: 6.7% Unamortized discount				(11,551)	(11,806)
				532,449	532,194
6.95%	May 2011	May 2060	May 2016	342,000	342,000
Obligation on capital leases				3,749	4,756
TDS Telecom -					
Rural Utilities Service (“ RUS ”) and other notes				749	844
Obligation on capital leases				779	-
Non-Reportable Segment -					
Long-term notes, 3.7% to 4.8%		Through 2016		4,612	5,663
Obligation on capital leases				35	-
Total Subsidiaries				884,373	885,457
Total long-term debt				$ 1,721,720	$ 1,722,804
Long-term debt, current				$ 1,646	$ 1,233
Long-term debt, noncurrent				$ 1,720,074	$ 1,721,571

TDS may redeem its callable notes and U.S. Cellular may redeem its 6.95% Senior Notes, in whole or in part at any time after the respective call date, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest. U.S. Cellular may redeem the 6.7% Senior Notes, in whole or in part, at any time prior to maturity at a redemption price equal to the greater of (a) 100% of the principal amount of such notes, plus accrued and unpaid interest, or (b) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semi-annual basis at the Treasury Rate plus 30 basis points.

Interest on the notes is payable quarterly on Senior Notes outstanding at December 31, 2013, with the exception of U.S. Cellular's 6.7% note in which interest is payable semi-annually.

Capitalized debt issuance costs for Unsecured Senior Notes totaled $44.3 million and are included in Other assets and deferred charges (a long-term asset account). These costs are amortized over the life of the notes using the effective interest method.

The annual requirements for principal payments on long-term debt are approximately $1.6 million, $1.3 million, $3.1 million, $0.2 million and $0.2 million for the years 2014 through 2018, respectively.

The covenants associated with TDS and its subsidiaries’ long-term debt obligations, among other things, restrict TDS’ ability, subject to certain exclusions, to incur additional liens, enter into sale and leaseback transactions, and sell, consolidate or merge assets.

TDS’ long-term debt indentures do not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in TDS’ credit rating. However, a downgrade in TDS’ credit rating could adversely affect its ability to obtain long-term debt financing in the future.

NOTE 11 EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

TDS sponsors a qualified noncontributory defined contribution pension plan. The plan provides benefits for the employees of TDS Corporate, TDS Telecom and U.S. Cellular. Under this plan, pension costs are calculated separately for each participant and are funded annually. Total pension costs were $16.2 million, $18.4 million and $17.5 million in 2013, 2012 and 2011, respectively. In addition, TDS sponsors a defined contribution retirement savings plan ("401(k)") plan. Total costs incurred from TDS' contributions to the 401(k) plan were $24.8 million, $25.0 million and $22.1 million in 2013, 2012 and 2011, respectively.

TDS also sponsors an unfunded nonqualified deferred supplemental executive retirement plan for certain employees to offset the reduction of benefits caused by the limitation on annual employee compensation under the tax laws.

Other Post-Retirement Benefits

TDS sponsors a defined benefit post-retirement plan that provides medical benefits and that covers most of the employees of TDS Corporate, TDS Telecom and the Wireline subsidiaries of TDS Telecom. The plan is contributory, with retiree contributions adjusted annually.

The following amounts are included in Accumulated other comprehensive loss in the Consolidated Balance Sheet before affecting such amounts for income taxes:

December 31, (Dollars in thousands)	2013	2012
Net prior service costs	$ 18,833	$ 22,438
Net actuarial loss	(20,713)	(36,510)
	$ (1,880)	$ (14,072)

The estimated net actuarial loss and prior service cost gain for the postretirement benefit plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost during 2014 are $2.4 million and $3.6 million, respectively.

The following amounts are included in Comprehensive income in the Consolidated Statement of Comprehensive Income:

Year Ended December 31, 2013 (Dollars in thousands)	Before-Tax	Deferred Income Tax Benefit (Expense)	Net-of-Tax
Net actuarial gains (losses)	$ 13,345	$ (5,086)	$ 8,259
Amortization of prior service costs	(3,605)	1,374	(2,231)
Amortization of actuarial losses	2,452	(934)	1,518
Total gains (losses) recognized in Comprehensive income	$ 12,192	$ (4,646)	$ 7,546

Year Ended December 31, 2012 (Dollars in thousands)	Before-Tax	Deferred Income Tax Benefit (Expense)	Net-of-Tax
Net actuarial gains (losses)	$ 90	$ (143)	$ (53)
Amortization of prior service costs	(3,735)	5,950	2,215
Amortization of actuarial losses	2,517	(4,010)	(1,493)
Total gains (losses) recognized in Comprehensive income	$ (1,128)	$ 1,797	$ 669

The following table reconciles the beginning and ending balances of the benefit obligation and the fair value of plan assets for the other post-retirement benefit plans.

December 31, **(Dollars in thousands)**	**2013**	**2012**
Change in benefit obligation		
Benefit obligation at beginning of year	$ 54,568	$ 50,113
Service cost	1,348	1,197
Interest cost	2,137	2,297
Actuarial (gain) loss	(9,437)	3,179
Prescription drug subsidy	-	542
Benefits paid	(2,474)	(2,760)
Benefit obligation at end of year	46,142	54,568
Change in plan assets		
Fair value of plan assets at beginning of year	45,047	41,267
Actual return (loss) on plan assets	6,973	6,264
Employer contribution	197	276
Benefits paid	(2,474)	(2,760)
Fair value of plan assets at end of year	49,743	45,047
Funded status	$ 3,601	$ (9,521)

Employee contributions are included with Benefits paid in the table above. The funded status identified above is recorded as a component of Other assets and deferred charges in TDS' Consolidated Balance Sheet as of December 31, 2013 and Other deferred liabilities and credits in TDS' Consolidated Balance Sheet as of December 31, 2012.

The following table sets forth by level within the fair value hierarchy the plans' assets at fair value, as of December 31, 2013 and 2012. See Note 1 — Summary of Significant Accounting Policies and Recent Accounting Pronouncements for definitions of the levels in the fair value hierarchy.

December 31, 2013 **(Dollars in thousands)**	**Level 1**	**Level 2**	**Level 3**	**Total**
Mutual funds				
Bond	$ 12,697	$ -	$ -	$ 12,697
International equity	9,876	-	-	9,876
Money market	1,798	-	-	1,798
US large cap	20,861	-	-	20,861
US small cap	4,500	-	-	4,500
Other	-	11	-	11
Total plan assets at fair value	$ 49,732	$ 11	$ -	$ 49,743

December 31, 2012 **(Dollars in thousands)**	**Level 1**	**Level 2**	**Level 3**	**Total**
Mutual funds				
Bond	$ 11,285	$ -	$ -	$ 11,285
International equity	8,868	-	-	8,868
Money market	1,983	-	-	1,983
US large cap	18,823	-	-	18,823
US small cap	4,074	-	-	4,074
Other	-	14	-	14
Total plan assets at fair value	$ 45,033	$ 14	$ -	$ 45,047

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. A financial instrument's level within the fair value hierarchy is not representative of its expected performance or its overall risk profile, and therefore Level 3 assets are not necessarily higher risk than Level 2 assets or Level 1 assets.

Mutual funds are valued based on the closing price reported on the active market on which the individual securities are traded. The investment strategy for each type of mutual fund is identified below:

Bond - The funds seek to achieve a maximum total return, consistent with preservation of capital and prudent investment management by investing in a wide spectrum of fixed income instruments including bonds, debt securities and other similar instruments issued by government and private-sector entities.

International equity - The funds seek to provide long-term capital appreciation by investing in the stocks of companies located outside the United States that are considered to have the potential for above-average capital appreciation.

Money market - The fund seeks as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity by investing in a diversified portfolio of high-quality, dollar-denominated short-term debt securities.

US large cap - The funds seek to track the performance of several benchmark indices that measure the investment return of large-capitalization stocks. The funds attempt to replicate the indices by investing substantially all of their assets in the stocks that make up the various indices in approximately the same proportion as the weighting in the indices.

US small cap - The fund seeks to track the performance of a benchmark index that measures the investment return of small-capitalization stocks. The fund attempts to replicate the index by investing substantially all of its assets in the stocks that make up the index in approximately the same proportion as the weighting in the index.

The following table summarizes how plan assets are invested.

		Allocation of Plan Assets at December 31,	
Investment Category	**Target Asset Allocation**	**2013**	**2012**
U.S. equities	50 %	51.0 %	50.8 %
International equities	20 %	19.9 %	19.7 %
Debt securities	30 %	29.1 %	29.5 %

The post-retirement benefit fund engages multiple asset managers to ensure proper diversification of the investment portfolio within each asset category. The investment objective is to meet or exceed the rate of return of a performance index comprised of 50% Dow Jones U.S. Total Stock Market Index, 20% FTSE All World (excluding U.S.) Stock Index, and 30% Barclays Capital Aggregate Bond Index. The three-year and five-year average rates of return for TDS' post-retirement benefit fund are 10.59% and 14.19%, respectively.

The post-retirement benefit fund does not hold any debt or equity securities issued by TDS, U.S. Cellular or any related parties.

TDS is not required to set aside current funds for its future retiree health and life insurance benefits. The decision to contribute to the plan assets is based upon several factors, including the funded status of the plan, market conditions, alternative investment opportunities, tax benefits and other circumstances. In accordance with applicable income tax regulations, total accumulated contributions to fund the costs of future retiree medical benefits are restricted to an amount not to exceed 25% of the total accumulated contributions to the trust. An additional contribution equal to a reasonable amortization of the past service cost may be made without regard to the 25% limitation. TDS has not determined whether it will make a contribution to the plan in 2014.

Net periodic benefit cost recorded in the Consolidated Statement of Operations includes the following components:

Year Ended December 31,	2013	2012	2011
(Dollars in thousands)			
Service cost	$ 1,348	$ 1,197	$ 1,116
Interest cost	2,137	2,297	2,368
Expected return on plan assets	(3,065)	(2,995)	(3,496)
Amortization of prior service costs (1)	(3,605)	(3,735)	(3,815)
Amortization of actuarial losses (2)	2,452	2,517	1,934
Net post-retirement cost	$ (733)	$ (719)	$ (1,893)

(1) Based on straight-line amortization over the average time remaining before active employees become fully eligible for plan benefits.

(2) Based on straight-line amortization over the average time remaining before active employees retire.

The following assumptions were used to determine benefit obligations and net periodic benefit cost:

December 31,	2013	2012
Benefit obligations		
Discount rate	5.00 %	4.00 %
Net periodic benefit cost		
Discount rate	4.00 %	4.70 %
Expected return on plan assets	7.00 %	7.50 %

The discount rate for 2013 and 2012 was determined using a hypothetical Aa spot yield curve represented by a series of annualized individual spot discount rates from six months to 99 years. The spot rate curve was derived from a direct calculation of the implied forward rate curve based on the included bond cash flows. This yield curve, when populated with projected cash flows that represent the expected timing and amount of TDS plan benefit payments, produces a single effective interest discount rate that is used to measure the plan's liabilities.

The expected rate of return was determined using the target asset allocation for the TDS plan and rate of return expectations for each asset class.

The measurement date for actuarial determination was December 31, 2013. For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits was assumed for 2013 to be 7.5% for plan participants aged 65 and above, and 7.9% for participants under age 65. For all participants the 2013 annual rate of increase is expected to decrease to 5.0% by 2021. The 2012 expected rate of increase was 7.3% for plan participants aged 65 and above, and 8.1% for participants under age 65, decreasing to 5.0% for all participants by 2020.

A 1% increase or decrease in assumed health care cost trend rates would have the following effects as of and for the year ended December 31, 2013:

	One Percent	
	Increase	Decrease
(Dollars in thousands)		
Effect on total service and interest cost components	$ 18	$ (17)
Effect on post-retirement benefit obligation	$ 301	$ (281)

The following estimated future benefit payments, which reflect expected future service, are expected to be paid:

Year		Estimated Future Post-Retirement Benefit Payments
(Dollars in thousands)		
2014	$	2,082
2015		2,059
2016		2,143
2017		2,117
2018		2,138
2019-2023		13,294

NOTE 12 COMMITMENTS AND CONTINGENCIES

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 $183.9 million (subject to certain potential adjustments) over the period from commencement of the SLMA through the first half of 2014. As of December 31, 2013, $136.8 million had been paid to Amdocs.

Lease Commitments

TDS and its subsidiaries have leases for certain plant facilities, office space, retail store sites, cell sites, data centers and data-processing equipment which are accounted for as operating leases. Certain leases have renewal options and/or fixed rental increases. Renewal options that are reasonably assured of exercise are included in determining the lease term. Any rent abatements or lease incentives, in addition to fixed rental increases, are included in the calculation of rent expense and calculated on a straight-line basis over the defined lease term.

As of December 31, 2013, future minimum rental payments required under operating leases and rental receipts expected under operating leases that have noncancellable lease terms in excess of one year were as follows:

		Operating Leases Future Minimum Rental Payments		Operating Leases Future Minimum Rental Receipts
(Dollars in thousands)				
2014	$	175,140	$	45,911
2015		153,338		36,536
2016		131,670		25,993
2017		109,733		17,083
2018		91,275		6,478
Thereafter		849,015		227
Total	$	1,510,171	$	132,228

For 2013, 2012 and 2011, rent expense for noncancellable long-term leases was $187.8 million, $204.1 million and $187.4 million, respectively; and rent expense under cancellable short-term leases was $15.4 million, $10.4 million and $9.0 million, respectively.

Rent revenue totaled $45.7 million, $41.6 million and $39.2 million in 2013, 2012 and 2011, respectively.

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 $0.3 million and $1.7 million with respect to legal proceedings and unasserted claims as of December 31, 2013 and 2012, respectively. TDS has not accrued any amount for legal proceedings if it cannot 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 certain minimum quantities of Apple iPhone products over a three-year period beginning in November 2013. Based on current forecasts, TDS estimates that the remaining contractual purchase commitment as of December 31, 2013 is approximately $950 million. At this time, TDS expects to meet its contractual commitment with Apple.

NOTE 13 VARIABLE INTEREST ENTITIES (VIEs)

TDS consolidates variable interest entities in which it has a controlling financial interest and is the primary beneficiary. A controlling financial interest will have both of the following characteristics: (a) the power to direct the VIE activities that most significantly impact economic performance and (b) the obligation to absorb the VIE losses and right to receive benefits that are significant to the VIE. TDS reviews these criteria initially at the time it enters into agreements and subsequently when reconsideration events occur.

Consolidated VIEs

As of December 31, 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.

December 31, (Dollars in thousands)	2013	2012
Assets		
Cash and cash equivalents	$ 2,076	$ 7,028
Other current assets	1,184	3,267
Licenses and other intangible assets	310,475	325,707
Property, plant and equipment, net	18,600	31,544
Other assets and deferred charges	511	3,026
Total assets	$ 332,846	$ 370,572
Liabilities		
Current liabilities	$ 46	$ 9,985
Deferred liabilities and credits	3,139	6,213
Total liabilities	$ 3,185	$ 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 those described in the “Risk Factors” in TDS’ Annual Report on Form 10-K.

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.

The limited partnership agreements of Aquinas Wireless and King Street Wireless also provide the general partner with a put option whereby the general partner may require the limited partner, a subsidiary of U.S. Cellular, to purchase its interest in the limited partnership. The general partner’s put options related to its interests in King Street Wireless and Aquinas Wireless will become exercisable in 2019 and 2020, respectively. The put option price is determined pursuant to a formula that takes into consideration fixed interest rates and the market value of U.S. Cellular’s Common Shares. Upon exercise of the put option, the general partner is required to repay borrowings due to U.S. Cellular. If the general partner does not elect to exercise its put option, the general partner may trigger an appraisal process in which the limited partner (a subsidiary of U.S. Cellular) may have the right, but not the obligation, to purchase the general partner’s interest in the limited partnership at a price and on other terms and conditions specified in the limited partnership agreement. In accordance with requirements under GAAP, TDS is required to calculate a theoretical redemption value for all of the put options assuming they are exercisable at the end of each reporting period, even though such exercise is not contractually permitted. Pursuant to GAAP, this theoretical redemption value, net of amounts payable to U.S. Cellular for loans and accrued interest thereon made by U.S. Cellular to the general partners the (“net put value”), was $0.5 million at December 31, 2013 and 2012, respectively. The net put value is recorded as Noncontrolling interests with redemption features in TDS’ Consolidated Balance Sheet. Also in accordance with GAAP, changes in the redemption value of the put options, net of interest accrued on the loans, are recorded as a component of Net income attributable to noncontrolling interests, net of tax, in TDS’ Consolidated Statements of Operations.

TDS’ capital contributions and advances made to Aquinas Wireless and King Street Wireless and/or their general partners totaled $10.0 million in the year ended December 31, 2012. There were no capital contributions or advances made to Aquinas Wireless or King Street Wireless or their general partners in 2013.

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.

NOTE 14 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 2013, 2012 and 2011:

Year Ended December 31,	2013	2012	2011
(Dollars in thousands)			
Net income attributable to TDS shareholders	$ 141,927	$ 81,861	$ 200,566
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	(14,135)	(8,854)	(8,555)
Change in TDS ' Capital in excess of par value from U.S. Cellular ' s repurchase of U.S. Cellular shares	3,370	4,789	(7,723)
Purchase of ownership in subsidiaries from noncontrolling interests	(123)	4,397	-
Net transfers (to) from noncontrolling interests	(10,888)	332	(16,278)
Change from net income attributable to TDS shareholders and transfers (to) from noncontrolling interests	$ 131,039	$ 82,193	$ 184,288

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 December 31, 2013, net of estimated liquidation costs, is $14.0 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 December 31, 2013 was $8.2 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.

NOTE 15 COMMON SHAREHOLDERS' EQUITY

Share Consolidation Amendment

On January 13, 2012, TDS shareholders approved certain amendments to the Restated Certificate of Incorporation of TDS ("Charter Amendments").

These approved Charter Amendments include (a) a Share Consolidation Amendment to reclassify (i) each Special Common Share as one Common Share, (ii) each Common Share as 1.087 Common Shares, and (iii) each Series A Common Share as 1.087 Series A Common Shares, (b) a Vote Amendment to fix the percentage voting power in certain matters and (c) amendments to eliminate obsolete and inoperative provisions as more fully described in TDS' Current Report on Form 8-K dated January 24, 2012.

These approved Charter Amendments were effected on January 24, 2012 at which time each outstanding Special Common Share was reclassified as one Common Share and the Special Common Shares ceased to be outstanding and consequently ceased trading on the New York Stock Exchange under the symbol "TDS.S."

As of December 31, 2011, the holders of Common Shares and Special Common Shares were entitled to one vote per share. The holders of Common Shares had full voting rights; the holders of Special Common Shares had limited voting rights. Other than the election of directors, the Special Common Shares had no votes except as otherwise required by law. The holders of Series A Common Shares were entitled to ten votes per share. Pursuant to the Vote Amendment, the voting power of the Series A Common Shares and the Common Shares, are fixed at 56.7% and 43.3%, respectively, of the total voting power in matters other than the election of directors where voting power is subject to adjustment due to changes in the number of outstanding Series A Common Shares. The Series A Common Shares continue to have ten votes per share in such matters and the vote per share of the Common Shares floats and is determined each time there is a vote on matters other than the election of directors.

As of January 24, 2012, immediately prior to the reclassification, there were outstanding 6,549,000 Series A Common Shares, 49,980,000 Common Shares, 47,012,000 Special Common Shares and 8,300 Preferred Shares. As of January 24, 2012 immediately following the reclassification, there were outstanding 7,119,000 Series A Common Shares, 101,340,000 Common Shares and 8,300 Preferred Shares.

As a result of the share reclassification, shares outstanding at December 31, 2011, as well as average basic and diluted shares outstanding used to calculate earnings per share, as of the beginning of 2011 and all prior periods presented in this Form 10-K have been retroactively restated to reflect the impact of the increased shares outstanding.

Common Stock

As of December 31, 2013, Series A Common Shares were convertible, on a share for share basis, into Common Shares and 7,166,195 Common Shares were reserved for possible issuance upon conversion of Series A Common Shares.

The following table summarizes the number of Common, Special Common and Series A Common Shares issued and repurchased.

(Shares in thousands)	Common Shares	Special Common Shares	Common Treasury Shares	Special Common Treasury Shares	Series A Common Shares
Balance December 31, 2010	57,093	63,442	7,198	15,911	6,510
Repurchase of shares	-	-	-	748	-
Dividend reinvestment, incentive and compensation plans	-	-	(86)	(226)	39
Reclassification as a result of Share Consolidation Amendment (1)	68,409	(63,442)	17,053	(16,433)	570
Balance December 31, 2011	125,502	-	24,165	-	7,119
Repurchase of shares	-	-	868	-	-
Conversion of Series A Common Shares	10	-	-	-	(10)
Dividend reinvestment, incentive and compensation plans	-	-	(392)	-	51
Balance December 31, 2012	125,512	-	24,641	-	7,160
Repurchase of shares	-	-	339	-	-
Conversion of Series A Common Shares	33	-	-	-	(33)
Dividend reinvestment, incentive and compensation plans	-	-	(1,026)	-	39
Balance December 31, 2013	125,545	-	23,954	-	7,166

(1) Reflects the impact of the Share Consolidation Amendment to the Restated Certificate of Incorporation of TDS, as approved by the TDS shareholders on January 13, 2012.

Tax-Deferred Savings Plan

TDS has reserved 90,341 Common Shares at December 31, 2013, for issuance under the TDS Tax-Deferred Savings Plan, a qualified profit−sharing plan pursuant to Sections 401(a) and 401(k) of the Internal Revenue Code. Participating employees have the option of investing their contributions and TDS' contributions in a TDS Common Share fund, a U.S. Cellular Common Share fund or certain unaffiliated funds.

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 and prior authorizations, were as follows:

Year Ended December 31, (Dollar amounts and shares in thousands)	Number of Shares	Average Cost Per Share	Amount
2013			
U.S. Cellular Common Shares	499	$ 37.19	$ 18,544
TDS Common Shares	339	28.60	9,692
2012			
U.S. Cellular Common Shares	571	$ 35.11	$ 20,045
TDS Common Shares	868	23.08	20,026
2011			
U.S. Cellular Common Shares	1,276	$ 48.82	$ 62,294
TDS Common Shares	-	-	-
TDS Special Common Shares	748	28.73	21,500

NOTE 16 STOCK-BASED COMPENSATION

TDS Consolidated

The following table summarizes stock-based compensation expense recognized during 2013, 2012 and 2011:

Year Ended December 31, (Dollars in thousands)	2013	2012	2011
Stock option awards	$ 12,973	$ 20,884	$ 20,443
Restricted stock unit awards	15,535	19,025	14,905
Deferred compensation bonus and matching stock unit awards	550	749	124
Employee stock purchase plans	-	-	485
Awards under Non-Employee Director compensation plan	1,280	1,213	880
Total stock-based compensation, before income taxes	30,338	41,871	36,837
Income tax benefit	(11,459)	(15,848)	(13,862)
Total stock-based compensation expense, net of income taxes	$ 18,879	$ 26,023	$ 22,975

At December 31, 2013, unrecognized compensation cost for all stock−based compensation awards was $36.8 million and is expected to be recognized over a weighted average period of 2.2 years.

The following table provides a summary of the stock-based compensation expense included in the Consolidated Statement of Operations for the years ended:

December 31, (Dollars in thousands)	2013	2012	2011
Selling, general and administrative expense	$ 27,130	$ 38,563	$ 33,949
Cost of services and products	3,208	3,308	2,888
Total stock-based compensation	$ 30,338	$ 41,871	$ 36,837

TDS' tax benefits realized from the exercise of stock options and other awards totaled $9.6 million in 2013.

TDS (excluding U.S. Cellular)

The information in this section relates to stock−based compensation plans using the equity instruments of TDS. Participants in these plans are employees of TDS Corporate and TDS Telecom and Non-employee Directors of TDS, although U.S. Cellular employees were eligible to participate in the TDS Employee Stock Purchase Plan before it was terminated in the fourth quarter of 2011. Information related to plans using the equity instruments of U.S. Cellular are shown in the U.S. Cellular section following the TDS section.

Under the TDS Long-Term Incentive Plans, TDS may grant fixed and performance based incentive and non-qualified stock options, restricted stock, restricted stock units, and deferred compensation stock unit awards to key employees. On January 13, 2012, TDS shareholders approved Amendments to the Restated Certificate of Incorporation of TDS which included both a Share Consolidation Amendment and adoption of the TDS 2011 Long-Term Incentive Plan, which replaced the TDS 2004 Long-Term Incentive Plan. See Note 15 — Common Shareholders' Equity for additional information.

As a result of the effectiveness of the Share Consolidation Amendment on January 24, 2012, there are no longer any Special Common Shares authorized or outstanding. As a result, outstanding awards were adjusted to reflect the reclassification, and such awards will be settled only in Common Shares. Such adjustment was made consistent with the share consolidation.

TDS had reserved 13,315,000 Common Shares at December 31, 2013 for equity awards granted and to be granted under the TDS Long-Term Incentive Plans in effect. At December 31, 2013, the only types of awards outstanding are fixed non-qualified stock option awards, restricted stock unit awards, and deferred compensation stock unit awards. As of December 31, 2013, there were no shares reserved under any employee stock purchase plan, since this plan was terminated in the fourth quarter of 2011.

TDS has also established a Non-Employee Directors' compensation plan under which it has reserved 200,000 TDS Common Shares at December 31, 2013 for issuance as compensation to members of the Board of Directors who are not employees of TDS.

TDS uses treasury stock to satisfy requirements for shares issued pursuant to its various stock-based compensation plans.

Long-Term Incentive Plan—Stock Options —Stock options granted to key employees are exercisable over a specified period not in excess of ten years. Stock options generally vest over periods up to three years from the date of grant. Stock options outstanding at December 31, 2013 expire between 2014 and 2023. However, vested stock options typically expire 30 days after the effective date of an employee's termination of employment for reasons other than retirement. Employees who leave at the age of retirement have 90 days (or one year if they satisfy certain requirements) within which to exercise their vested stock options. The exercise price of options equals the market value of TDS common stock on the date of grant.

TDS estimated the fair value of stock options granted in 2013, 2012 and 2011 using the Black Scholes valuation model and the assumptions shown in the table below:

	2013	2012	2011
Expected life	5.7 Years	5.5 Years	5.5 Years
Expected annual volatility rate	41.0 %	41.1 %	37.6 %
Dividend yield	2.3 %	2.4 %	1.6 %
Risk-free interest rate	1.0 %	0.9 %	2.1 %
Estimated annual forfeiture rate	2.9 %	2.9 %	3.0 %

Until the time of the effectiveness of the Share Consolidation Amendment on January 24, 2012, any employee with stock options granted prior to the date of the TDS Special Common Share dividend on May 13, 2005, received one Common Share and one Special Common Share per tandem option exercised. Each tandem option was exercisable at its original exercise price. As a result of the Share Consolidation Amendment each Special Common Share was reclassified as a Common Share on a one-for-one basis and each Common Share was reclassified as 1.087 Common Shares. Consequently, each tandem option was adjusted to reflect the reclassification into 2.087 Common Shares upon exercise and the exercise price of the award was also adjusted to 1/2.087 of the original exercise price of the award.

Any employee with TDS stock options granted after May 13, 2005 was entitled to receive one Special Common Share per option exercised. As a result of the Share Consolidation Amendment each Special Common option was reclassified into one Common Share option. The reclassification did not change the exercise price of these awards.

A summary of TDS stock options (total and portion exercisable) and changes during the three years ended December 31, 2013, is presented in the tables and narrative below. The December 31, 2011 amounts in the tables below reflect the impact of the Share Consolidation Amendment to the Restated Certificate of Incorporation of TDS:

Tandem Options	**Number of Options**	**Weighted Average Exercise Price**	**Weighted Average Grant Date Fair Value**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2010	651,000	$ 69.60		
(651,000 exercisable)		69.60		
Exercised	(2,000)	53.77		$ 30,000
Forfeited	-	-		
Expired	(78,000)	99.23		
Reclassification of Tandem Options due to Share Consolidation	(571,000)	65.64		$ 158,000
Outstanding at December 31, 2011	-			

Special Common Share Options	**Number of Options**	**Weighted Average Exercise Prices**	**Weighted Average Grant Date Fair Value**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2010	5,108,000	$ 35.41		
(2,506,000 exercisable)		43.14		
Granted	1,034,000	29.94	$ 9.59	
Exercised	(5,000)	26.95		$ 19,000
Forfeited	(34,000)	28.12		
Expired	(79,000)	35.00		
Reclassification of Special Common Options due to Share Consolidation	(6,024,000)	$ 34.38		$ -
Outstanding at December 31, 2011	-			

Common Share Options	Number of Options		Weighted Average Exercise Prices		Weighted Average Grant Date Fair Value		Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (in years)
Reclassification of Tandem Options due to Share Consolidation	1,192,000		31.45					
Reclassification of Special Common Options due to Share Consolidation	6,024,000		34.38					
Outstanding at December 31, 2011	7,216,000	$	33.89					
(4,865,000 exercisable)			36.67					
Granted	1,702,000		20.79	$	6.28			
Exercised	(1,000)		20.65			$	4,000	
Forfeited	(106,000)		23.81					
Expired	(298,000)		30.12					
Outstanding at December 31, 2012	8,513,000	$	31.53					
(5,782,000 exercisable)			35.12					
Granted	1,259,000		22.60	$	7.01			
Exercised	(683,000)		25.33			$	2,450,000	
Forfeited	(81,000)		23.75					
Expired	(228,000)		34.10					
Outstanding at December 31, 2013	8,780,000	$	30.74			$	11,483,000	6.0
(6,160,000 exercisable)		$	34.13			$	2,256,000	4.9

The aggregate intrinsic value in the tables above represents the total pre-tax intrinsic value (the difference between TDS' closing stock prices and the exercise price, multiplied by the number of in-the-money options) that was received by the option holders upon exercise or that would have been received by option holders had all options been exercised on December 31, 2013.

Long-Term Incentive Plans—Restricted Stock Units —TDS also grants restricted stock unit awards to key employees. As of December 31, 2011, each restricted stock unit outstanding was convertible into one Special Common Share upon the vesting of such restricted stock units. As a result of the Share Consolidation Amendment each outstanding restricted stock unit was reclassified and became convertible into one Common Share Award. The restricted stock unit awards currently outstanding were granted in 2012 and 2013 and will vest in December 2014 and May 2016, respectively.

TDS estimates the fair value of restricted stock units by reducing the grant-date price of TDS' shares by the present value of the dividends expected to be paid on the underlying shares during the requisite service period, discounted at the appropriate risk-free interest rate, since employees are not entitled to dividends declared on the underlying shares while the restricted stock or RSU is unvested. The fair value is then recognized as compensation cost on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

A summary of TDS nonvested restricted stock units and changes during the year ended December 31, 2013 is presented in the table below:

Common Restricted Stock Units	Number		Weighted Average Grant Date Fair Value
Nonvested at December 31, 2012	547,000	$	23.44
Granted	353,000	$	21.09
Vested	(213,000)	$	28.94
Forfeited	(24,000)	$	23.16
Nonvested at December 31, 2013	663,000	$	20.43

The total fair values as of the respective vesting dates of restricted stock units vested during 2013, 2012 and 2011 were $5.8 million, $3.4 million and $4.1 million, respectively. The weighted average grant date fair value of restricted stock units granted in 2013, 2012 and 2011 was $21.09, $19.62 and 28.73, respectively.

Long-Term Incentive Plans—Deferred Compensation Stock Units —Certain TDS employees may elect to defer receipt of all or a portion of their annual bonuses and to receive a company matching contribution on the amount deferred. All bonus compensation that is deferred by employees electing to participate is immediately vested and is deemed to be invested in TDS Common Share units. The amount of TDS' matching contribution depends on the portion of the annual bonus that is deferred. Participants receive a 25% stock unit match for amounts deferred up to 50% of their total annual bonus and a 33% match for amounts that exceed 50% of their total annual bonus; such matching contributions also are deemed to be invested in TDS Common Share units.

The total fair values of deferred compensation stock units that vested during 2013, 2012 and 2011 were $0.1 million, $0.1 million and 0.1 million, respectively. The weighted average grant date fair value of deferred compensation stock units granted in 2013, 2012 and 2011 was $21.99, $24.18 and $28.15, respectively. As of December 31, 2013, there were 227,000 vested but unissued deferred compensation stock units valued at $5.9 million.

Compensation of Non-Employee Directors— TDS issued 33,000, 22,000 and 19,000 Common Shares under its Non-Employee Director plan in 2013, 2012 and 2011, respectively.

Dividend Reinvestment Plans ("DRIP")— TDS had reserved 1,403,000 Common Shares at December 31, 2013, for issuance under Automatic Dividend Reinvestment and Stock Purchase Plans and 179,000 Series A Common Shares for issuance under the Series A Common Share Automatic Dividend Reinvestment Plan. These plans enabled holders of TDS' Common Shares and Preferred Shares to reinvest cash dividends in Common Shares and holders of Series A Common Shares to reinvest cash dividends in Series A Common Shares. The purchase price of the shares is 95% of the market value, based on the average of the daily high and low sales prices for TDS' Common Shares on the New York Stock Exchange for the ten trading days preceding the date on which the purchase is made. These plans are considered non-compensatory plans, therefore no compensation expense is recognized for stock issued under these plans.

U.S. Cellular

The information in this section relates to stock−based compensation plans using the equity instruments of U.S. Cellular. Participants in these plans are employees of U.S. Cellular and Non-employee Directors of U.S. Cellular. Information related to plans using the equity instruments of TDS are shown in the previous section.

U.S. Cellular has established the following stock−based compensation plans: long-term incentive plans and a Non-Employee Director compensation plan, and had an employee stock purchase plan that was terminated in the fourth quarter of 2011. In addition, U.S. Cellular employees were eligible to participate in the TDS employee stock purchase plan before that plan also was terminated in the fourth quarter of 2011.

Under the U.S. Cellular Long-Term Incentive Plans, U.S. Cellular may grant fixed and performance based incentive and non-qualified stock options, restricted stock, restricted stock units, and deferred compensation stock unit awards to key employees. At December 31, 2013, the only types of awards outstanding are fixed non-qualified stock option awards, restricted stock unit awards, and deferred compensation stock unit awards.

On June 25, 2013, U.S. Cellular paid a special cash dividend to all holders of U.S. Cellular Common Shares and Series A Common Shares as of June 11, 2013. Outstanding U.S. Cellular stock options, restricted stock unit awards and deferred compensation stock units were equitably adjusted for the special cash dividend. The impact of such adjustments are fully reflected for all years presented. See Note 4 – Earnings Per Share for additional information.

At December 31, 2013, U.S. Cellular had reserved 10,139,000 Common Shares for equity awards granted and to be granted under the Long-Term Incentive Plans. No Common Shares were reserved for issuance to employees under any employee stock purchase plan since this plan was terminated in the fourth quarter of 2011.

U.S. Cellular also has established a Non-Employee Director compensation plan under which it has reserved 212,000 Common Shares at December 31, 2013 for issuance as compensation to members of the Board of Directors who are not employees of U.S. Cellular or TDS.

U.S. Cellular uses treasury stock to satisfy requirements for Common Shares issued pursuant to its various stock-based compensation plans.

Long-Term Incentive Plans—Stock Options — Stock options granted to key employees are exercisable over a specified period not in excess of ten years. Stock options generally vest over a period of three years from the date of grant. Stock options outstanding at December 31, 2013 expire between 2014 and 2023. However, vested stock options typically expire 30 days after the effective date of an employee's termination of employment for reasons other than retirement. Employees who leave at the age of retirement have 90 days (or one year if they satisfy certain requirements) within which to exercise their vested stock options. The exercise price of options equals the market value of U.S. Cellular Common Shares on the date of grant.

U.S. Cellular estimated the fair value of stock options granted during 2013, 2012, and 2011 using the Black Scholes valuation model and the assumptions shown in the table below.

	2013	2012	2011
Expected life	4.6-9.0 years	4.5 years	4.3 years
Expected volatility	29.2%-39.6%	40.7%-42.6%	43.4%-44.8%
Dividend yield	0%	0%	0%
Risk-free interest rate	0.7%-2.4%	0.5%-0.9%	0.7%-2.0%
Estimated annual forfeiture rate	0.0%-8.1%	0.0%-9.1%	0.0%-7.8%

The fair value of options is recognized as compensation cost using an accelerated attribution method over the requisite service periods of the awards, which is generally the vesting period.

A summary of U.S. Cellular stock options outstanding (total and portion exercisable) and changes during the three years ended December 31, 2013, is presented in the table below:

Common Share Options	Number of Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (in years)
Outstanding at December 31, 2010	2,627,000	$ 42.28			
(1,333,000 exercisable)		47.18			
Granted	694,000	44.34	$ 16.66		
Exercised	(201,000)	32.32		$ 2,099,000	
Forfeited	(83,000)	39.42			
Expired	(203,000)	49.32			
Outstanding at December 31, 2011	2,834,000	$ 43.07			
(1,533,000 exercisable)		46.23			
Granted	677,000	34.91	$ 12.61		
Exercised	(47,000)	29.82		$ 205,000	
Forfeited	(117,000)	38.45			
Expired	(133,000)	46.17			
Outstanding at December 31, 2012	3,214,000	$ 41.58			
(1,928,000 exercisable)		43.99			
Granted	1,213,000	32.45	$ 11.53		
Exercised	(892,000)	34.78		$ 6,787,000	
Forfeited	(574,000)	34.17			
Expired	(247,000)	48.35			
Outstanding at December 31, 2013	2,714,000	$ 42.22		$ 13,015,000	6.80
(1,359,000 exercisable)		$ 46.91		$ 2,632,000	4.60

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between U.S. Cellular's closing stock price and the exercise price multiplied by the number of in-the-money options) that was received by the option holders upon exercise or that would have been received by option holders had all options been exercised on December 31, 2013.

Long-Term Incentive Plans—Restricted Stock Units —U.S. Cellular grants restricted stock unit awards, which generally vest after three years, to key employees.

U.S. Cellular estimates the fair value of restricted stock units based on the closing market price of U.S. Cellular shares on the date of grant. The fair value is then recognized as compensation cost on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

A summary of U.S. Cellular nonvested restricted stock units at December 31, 2013 and changes during the year then ended is presented in the table below:

Common Restricted Stock Units	Number	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2012	1,139,000	$ 38.40
Granted	601,000	32.06
Vested	(238,000)	42.26
Forfeited	(332,000)	35.63
Nonvested at December 31, 2013	1,170,000	$ 36.46

The total fair value of restricted stock units that vested during 2013, 2012 and 2011 was $8.8 million, $8.9 million and $9.5 million, respectively, as of the respective vesting dates. The weighted average grant date fair value of restricted stock units granted in 2013, 2012 and 2011 was $32.06, $34.09 and $42.33, respectively.

Long-Term Incentive Plans—Deferred Compensation Stock Units —Certain U.S. Cellular employees may elect to defer receipt of all or a portion of their annual bonuses and to receive a company matching contribution on the amount deferred. All bonus compensation that is deferred by employees electing to participate is immediately vested and is deemed to be invested in U.S. Cellular Common Share stock units. The amount of U.S. Cellular's matching contribution depends on the portion of the annual bonus that is deferred. Participants receive a 25% match for amounts deferred up to 50% of their total annual bonus and a 33% match for amounts that exceed 50% of their total annual bonus; such matching contributions also are deemed to be invested in U.S. Cellular Common Share stock units.

The total fair value of deferred compensation stock units that vested was less than $0.1 million during 2013, 2012 and 2011. The weighted average grant date fair value of deferred compensation stock units granted in 2013, 2012 and 2011 was $31.50, $36.34 and $41.79, respectively. As of December 31, 2013, there were 12,000 vested but unissued deferred compensation stock units valued at $0.5 million.

Compensation of Non-Employee Directors —U.S. Cellular issued 13,000, 7,600 and 6,600 Common Shares in 2013, 2012 and 2011, respectively, under its Non-Employee Director compensation plan.

NOTE 17 RECLASSIFICATION ADJUSTMENTS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive loss includes amounts related to TDS' defined benefit post-retirement plan. During 2013, reclassifications from Accumulated other comprehensive loss into Operating expenses, related to the retirement plan, were approximately $0.8 million (net of income tax of $0.4 million). Of this amount, $0.5 million was recorded as a decrease to Cost of services and products and $0.3 million was recorded as a decrease to Selling, general and administrative expense.

NOTE 18 BUSINESS SEGMENT INFORMATION

U.S. Cellular and TDS Telecom are billed for all services they receive from TDS, consisting primarily of information processing and general management services. Such billings are based on expenses specifically identified to U.S. Cellular and TDS Telecom and on allocations of common expenses. Management believes the method used to allocate common expenses is reasonable and that all expenses and costs applicable to U.S. Cellular and TDS Telecom are reflected in the accompanying business segment information on a basis that is representative of what they would have been if U.S. Cellular and TDS Telecom operated on a stand-alone basis.

Financial data for TDS' reportable segments for 2013, 2012 and 2011, is as follows. During the year ended December 31, 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 — Summary of Significant Accounting Policies and Recent Accounting Pronouncements for additional information.

		TDS Telecom							
Year Ended or as of December 31, 2013	**U.S. Cellular**	**Wireline**	**Cable**	**HMS**	**TDS Telecom Eliminations**	**TDS Telecom Total**	**Non-Reportable Segment**	**Corporate, Eliminations and Other Reconciling Items**	**Total**
(Dollars in thousands)									
Operating revenues	$ 3,918,836	$ 726,567	$ 35,883	$ 185,616	$ (1,063)	$ 947,003	$ 59,703	$ (24,306)	$ 4,901,236
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	1,762,435	270,466	17,274	136,414	(1,000)	423,154	43,049	(3,322)	2,225,316
Selling, general and administrative	1,677,395	220,097	11,054	44,945	(63)	276,033	14,526	(20,176)	1,947,778
Depreciation, amortization and accretion	803,781	170,868	7,571	24,262	-	202,701	5,980	5,615	1,018,077
(Gain) loss on asset disposals, net	30,606	130	28	125	-	283	(8)	(40)	30,841
(Gain) loss on sale of business and other exit costs, net	(246,767)	-	-	-	-	-	-	(53,889)	(300,656)
(Gain) loss on license sales and exchanges	(255,479)	-	-	-	-	-	-	-	(255,479)
Operating income (loss)	146,865	65,006	(44)	(20,130)	-	44,832	(3,844)	47,506	235,359
Equity in earnings of unconsolidated entities	131,949	19	-	-	-	19	-	746	132,714
Interest and dividend income	3,961	1,759	2	63	-	1,824	4	3,303	9,092
Gain (loss) on investments	18,556	830	-	-	-	830	-	(4,839)	14,547
Interest expense	(43,963)	3,265	(74)	(1,626)	-	1,565	(4,062)	(52,351)	(98,811)
Other, net	288	(214)	-	29	-	(185)	(161)	21	(37)
Income (loss) before income taxes	257,656	70,665	(116)	(21,664)	-	48,885	(8,063)	(5,614)	292,864
Add back:									
Depreciation, amortization and accretion	803,781	170,868	7,571	24,262	-	202,701	5,980	5,615	1,018,077
(Gain) loss on sale of business and other exit costs, net	(246,767)	-	-	-	-	-	-	(53,889)	(300,656)
(Gain) loss on license sales and exchanges	(255,479)	-	-	-	-	-	-	-	(255,479)
Gain (loss) on investments	(18,556)	(830)	-	-	-	(830)	-	4,839	(14,547)
Interest expense	43,963	(3,265)	74	1,626	-	(1,565)	4,062	52,351	98,811

Adjusted income before income taxes	$ 584,598	$ 237,438	$ 7,529	$ 4,224	$ -	$ 249,191	$ 1,979	$ 3,302	$ 839,070
Investments in unconsolidated entities	$ 265,585	$ 3,809	$ -	$ -	$ -	$ 3,809	$ -	$ 32,378	$ 301,772
Total assets	$ 6,445,708	$ 1,188,433	$ 543,038	$ 328,397	$ -	$ 2,059,868	$ 58,275	$ 340,296	$ 8,904,147
Capital expenditures	$ 737,501	$ 140,009	$ 8,375	$ 16,474	$ -	$ 164,858	$ 866	$ 6,435	$ 909,660

Year Ended or as of December 31, 2012	U.S. Cellular	TDS Telecom Wireline	TDS Telecom HMS	TDS Telecom Eliminations	TDS Telecom Total	Non-Reportable Segment	Corporate, Eliminations and Other Reconciling Items	Total
(Dollars in thousands)								
Operating revenues	$ 4,452,084	$ 741,748	$ 113,010	$ (252)	$ 854,506	$ 60,830	$ (22,143)	$ 5,345,277
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	1,882,752	274,065	75,781	(252)	349,594	42,150	(1,926)	2,272,570
Selling, general and administrative	1,764,933	235,716	34,193	-	269,909	16,189	(17,130)	2,033,901
Depreciation, amortization and accretion	608,633	172,526	20,568	-	193,094	6,102	5,797	813,626
Loss on impairment of assets	-	-	-	-	-	515	-	515
(Gain) loss on asset disposals, net	18,088	1,020	108	-	1,128	(1)	526	19,741
(Gain) loss on sale of business and other exit costs, net	21,022	39	-	-	39	-	-	21,061
Operating income (loss)	156,656	58,382	(17,640)	-	40,742	(4,125)	(9,410)	183,863
Equity in earnings of unconsolidated entities	90,364	10	-	-	10	-	2,493	92,867
Interest and dividend income	3,644	3,085	25	-	3,110	8	2,486	9,248
Gain (loss) on investments	(3,718)	-	-	-	-	-	-	(3,718)
Interest expense	(42,393)	2,674	(1,160)	-	1,514	(3,938)	(41,928)	(86,745)
Other, net	500	(353)	(1)	-	(354)	575	(1)	720
Income (loss) before income taxes	205,053	63,798	(18,776)	-	45,022	(7,480)	(46,360)	196,235
Add back:								
Depreciation, amortization and accretion	608,633	172,526	20,568	-	193,094	6,102	5,797	813,626
(Gain) loss on sale of business and other exit costs, net	21,022	39	-	-	39	-	-	21,061
Gain (loss) on investments	3,718	-	-	-	-	-	-	3,718
Interest expense	42,393	(2,674)	1,160	-	(1,514)	3,938	41,928	86,745
Adjusted income before income taxes	$ 880,819	$ 233,689	$ 2,952	$ -	$ 236,641	$ 2,560	$ 1,365	$ 1,121,385
Investments in unconsolidated entities	$ 144,531	$ 3,809	$ -	$ -	$ 3,809	$ -	$ 31,581	$ 179,921
Total assets	$ 6,587,450	$ 1,519,698	$ 267,798	$ -	$ 1,787,496	$ 62,931	$ 186,023	$ 8,623,900
Capital expenditures	$ 836,748	$ 158,580	$ 15,344	$ -	$ 173,924	$ 1,789	$ (7,840)	$ 1,004,621

Year Ended or as of December 31, 2011	U.S. Cellular	TDS Telecom				Non-Reportable Segment	Corporate, Eliminations and Other Reconciling Items	Total
		Wireline	HMS	TDS Telecom Eliminations	TDS Telecom Total			
(Dollars in thousands)								
Operating revenues	$ 4,343,346	$ 768,208	$ 47,180	$ -	$ 815,388	$ 45,133	$ (23,396)	$ 5,180,471
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	1,721,181	274,701	23,502	-	298,203	32,952	(1,692)	2,050,644
Selling, general and administrative	1,769,701	221,114	15,647	-	236,761	8,609	(12,712)	2,002,359
Depreciation, amortization and accretion	573,557	167,663	12,867	-	180,530	3,021	8,668	765,776
(Gain) loss on asset disposals, net	9,889	1,128	115	-	1,243	(197)	17	10,952
(Gain) loss on license sales and exchanges	(11,762)	-	-	-	-	-	-	(11,762)
Operating income (loss)	280,780	103,602	(4,951)	-	98,651	748	(17,677)	362,502
Equity in earnings of unconsolidated entities	83,566	8	-	-	8	-	(1,036)	82,538
Interest and dividend income	3,395	3,548	-	-	3,548	2	2,200	9,145
Gain (loss) on investments	11,373	-	-	-	-	-	12,730	24,103
Interest expense	(65,614)	2,702	(78)	-	2,624	(1,359)	(53,852)	(118,201)
Other, net	(678)	2,719	(9)	-	2,710	650	976	3,658
Income (loss) before income taxes	312,822	112,579	(5,038)	-	107,541	41	(56,659)	363,745
Add back:								
Depreciation, amortization and accretion	573,557	167,663	12,867	-	180,530	3,021	8,668	765,776
(Gain) loss on license sales and exchanges	(11,762)	-	-	-	-	-	-	(11,762)
Gain (loss) on investments	(11,373)	-	-	-	-	-	(12,730)	(24,103)
Interest expense	65,614	(2,702)	78	-	(2,624)	1,359	53,852	118,201
Adjusted income before income taxes	$ 928,858	$ 277,540	$ 7,907	$ -	$ 285,447	$ 4,421	$ (6,869)	$ 1,211,857
Investments in unconsolidated entities	$ 138,096	$ 3,808	$ -	$ -	$ 3,808	$ -	$ 31,806	$ 173,710
Total assets	$ 6,327,976	$ 1,494,362	$ 209,109	$ -	$ 1,703,471	$ 68,870	$ 100,688	$ 8,201,005
Capital expenditures	$ 782,526	$ 164,163	$ 26,999	$ -	$ 191,162	$ 3,206	$ 10,324	$ 987,218

Adjusted income before income taxes is a segment measure reported to the principal 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 (loss) before income taxes, adjusted for the items set forth in the reconciliation above. Adjusted income before income taxes excludes these items in order to show operating results on a more comparable basis from period to period. In addition, TDS may also exclude other items from adjusted income before income taxes if such items help reflect operating results on a more comparable basis. TDS does not intend to imply that any of such amounts that are excluded are non-recurring, infrequent or unusual; such amounts may occur in the future. TDS believes Adjusted income before income taxes is a useful measure of TDS' operating results before significant recurring non-cash charges, discrete gains and losses and financing charges (Interest expense).

NOTE 19 SUPPLEMENTAL CASH FLOW DISCLOSURES

Following are supplemental cash flow disclosures regarding interest paid and income taxes paid.

Year Ended December 31,	2013	2012	2011
(Dollars in thousands)			
Interest paid	$ 96,241	$ 88,208	$ 96,174
Income taxes paid (refunded)	175,629	(62,042)	(66,994)

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:

Year Ended December 31,	2013	2012	2011
(Dollars in thousands)			
Common Shares withheld	265,748	49,840	-
Special Common Shares withheld	-	1,381	65,638
Aggregate value of Common Shares withheld	$ 7,639	$ 1,102	$ -
Aggregate value of Special Common Shares withheld	$ -	$ 33	$ 1,537
Cash receipts upon exercise of stock options	12,092	16	1,463
Cash disbursements for payment of taxes	(2,438)	(1,135)	(1,431)
Net cash receipts (disbursements) from exercise of stock options and vesting of other stock awards	$ 9,654	$ (1,119)	$ 32

U.S. Cellular:

Year Ended December 31,	2013	2012	2011
(Dollars in thousands)			
Common Shares withheld	606,582	92,846	120,250
Aggregate value of Common Shares withheld	$ 25,179	$ 3,604	$ 5,952
Cash receipts upon exercise of stock options	10,468	900	5,447
Cash disbursements for payment of taxes	(4,684)	(3,105)	(3,512)
Net cash receipts (disbursements) from exercise of stock options and vesting of other stock awards	$ 5,784	$ (2,205)	$ 1,935

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 $41.9 million, $16.7 million, and $4.9 million in grants during the twelve months ended December 31, 2013, 2012 and 2011, respectively. TDS Telecom has received cumulative grants of $63.6 million as of December 31, 2013. These funds reduced the carrying amount of the assets to which they relate. TDS Telecom had recorded $23.6 million and $27.6 million in grants receivable at December 31, 2013 and 2012, respectively. These amounts were included as a component of Accounts receivable, Other, in the Consolidated Balance Sheet.

On September 27, 2012, the FCC conducted a single round, sealed bid, reverse auction to award up to $300 million in one-time Mobility Fund Phase I support to successful bidders that commit to provide 3G, or better, wireless service in areas designated as unserved by the FCC. This auction was designated by the FCC as Auction 901. U.S. Cellular and several of its wholly-owned subsidiaries participated in Auction 901 and were winning bidders in eligible areas within 10 states and will receive up to $40.1 million in one-time support from the Mobility Fund. These funds will reduce the carrying amount of the assets to which they relate or will offset operating expenses. U.S. Cellular has received $13.4 million in support funds as of December 31, 2013, of which $10.3 million is included as a component of Other assets and deferred charges in the Consolidated Balance Sheet and $3.1 million reduced the carrying amount of the assets to which they relate, which are included in Property, plant and equipment in the Consolidated Balance Sheet.

TDS declared and paid dividends on Series A Common and Common Shares of $55.2 million or $0.51 per share during 2013 and $53.1 million or $0.49 per share during 2012. TDS declared and paid dividends on Series A Common, Common and Special Common Shares of $48.6 million or $0.47 per share during 2011.

On June 25, 2013, U.S. Cellular paid a special cash dividend of $5.75 per share, for an aggregate amount of $482.3 million, to all holders of U.S. Cellular Common Shares and Series A Common Shares as of June 11, 2013. Of the $482.3 million paid, TDS received $407.1 million while noncontrolling public shareholders received $75.2 million. The cash paid to noncontrolling public shareholders is presented as U.S. Cellular dividends paid to noncontrolling public shareholders on the Consolidated Statement of Cash Flows.

NOTE 20 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following persons are partners of Sidley Austin LLP, the principal law firm of TDS and its subsidiaries: Walter C.D. Carlson, a trustee and beneficiary of a voting trust that controls TDS, the non-executive Chairman of the Board and member of the Board of Directors of TDS and a director of U.S. Cellular, a subsidiary of TDS; William S. DeCarlo, the General Counsel of TDS and an Assistant Secretary of TDS and certain subsidiaries of TDS; and Stephen P. Fitzell, the General Counsel of U.S. Cellular and TDS Telecommunications Corporation and an Assistant Secretary of certain subsidiaries of TDS. Walter C.D. Carlson does not provide legal services to TDS or its subsidiaries. TDS, U.S. Cellular and their subsidiaries incurred legal costs from Sidley Austin LLP of $17.6 million in 2013, $13.6 million in 2012 and $13.7 million in 2011.

The Audit Committee of the Board of Directors is responsible for the review and evaluation of all related-party transactions as such term is defined by the rules of the New York Stock Exchange.

REPORTS OF MANAGEMENT

Management's Responsibility for Financial Statements

Management of Telephone and Data Systems, Inc. has the responsibility for preparing the accompanying consolidated financial statements and for their integrity and objectivity. The statements were prepared in accordance with accounting principles generally accepted in the United States of America and, in management's opinion, were fairly presented. The financial statements included amounts that were based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the financial statements.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited these consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and has expressed herein its unqualified opinion on these financial statements.

/s/ LeRoy T. Carlson, Jr.	/s/ Douglas D. Shuma
LeRoy T. Carlson, Jr. President and Chief Executive Officer (principal executive officer)	Douglas D. Shuma Senior Vice President and Controller (principal financial officer and principal accounting officer)

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. TDS' internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP"). TDS' internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and, where required, the Board of Directors of the issuer; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the issuer's assets that could have a material effect on the interim or annual consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of TDS' management, including its principal executive officer and principal financial officer, TDS conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2013, based on the criteria established in the 1992 version of *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has concluded that TDS maintained effective internal control over financial reporting as of December 31, 2013 based on criteria established in the 1992 version of *Internal Control — Integrated Framework* issued by the COSO.

The effectiveness of TDS' internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in the firm's report included herein.

/s/ LeRoy T. Carlson, Jr.	/s/ Douglas D. Shuma
LeRoy T. Carlson, Jr. President and Chief Executive Officer (principal executive officer)	Douglas D. Shuma Senior Vice President and Controller (principal financial officer and principal accounting officer)

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Telephone and Data Systems, Inc.:

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows present fairly, in all material respects, the financial position of Telephone and Data Systems, Inc. and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, based on our audit, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We did not audit the financial statements of Los Angeles SMSA Limited Partnership, a 5.5% owned entity accounted for by the equity method of accounting. The consolidated financial statements of Telephone and Data Systems, Inc. reflect an investment in this partnership of $112,200,000 and $105,300,000 as of December 31, 2013 and 2012, respectively, and equity earnings of $78,400,000, $67,200,000 and $55,300,000 for each of the three years in the period ended December 31, 2013. The financial statements of Los Angeles SMSA Limited Partnership were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements expressed herein, insofar as it relates to the amounts included for Los Angeles SMSA Limited Partnership, is based solely on the report of the other auditors. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Chicago, Illinois
February 28, 2014

Telephone and Data Systems, Inc.

SELECTED CONSOLIDATED FINANCIAL DATA

Year Ended or at December 31, (Dollars and shares in thousands, except per share amounts)	2013	2012	2011	2010	2009
Statement of Operations data					
Operating revenues	$ 4,901,236	$ 5,345,277	$ 5,180,471	$ 4,986,829	$ 5,019,943
Loss on impairment of assets (1)	-	515	-	-	14,000
(Gain) loss on sale of business and other exit costs, net	(300,656)	21,061	-	-	-
(Gain) loss on license sales and exchanges	(255,479)	-	(11,762)	-	-
Operating income	235,359	183,863	362,502	296,091	407,844
Gain (loss) on investments	14,547	(3,718)	24,103	-	-
Net income	166,821	122,653	250,242	190,586	249,949
Net income attributable to noncontrolling interests, net of tax	24,894	40,792	49,676	45,737	58,602
Net income attributable to TDS shareholders	141,927	81,861	200,566	144,849	191,347
Net income available to common	$ 141,878	$ 81,811	$ 200,516	$ 144,799	$ 191,296
Basic weighted average shares outstanding	108,490	108,671	108,562	110,016	114,354
Basic earnings per share attributable to TDS shareholders	$ 1.31	$ 0.75	$ 1.85	$ 1.32	$ 1.67
Diluted weighted average shares outstanding	109,132	108,937	109,098	110,488	114,572
Diluted earnings per share attributable to TDS shareholders	$ 1.29	$ 0.75	$ 1.83	$ 1.31	$ 1.67
Dividends per Common, Special Common and Series A Common Share (2)	$ 0.51	$ 0.49	$ 0.47	$ 0.45	$ 0.43
Balance Sheet data					
Cash and cash equivalents	$ 830,014	$ 740,481	$ 563,275	$ 341,683	$ 674,469
Property, plant and equipment, net	3,878,144	3,997,266	3,784,535	3,517,784	3,467,367
Total assets	8,904,147	8,623,900	8,201,005	7,696,117	7,575,312
Long-term debt, excluding current portion	1,720,074	1,721,571	1,529,857	1,499,862	1,492,908
Total TDS shareholders' equity	4,117,837	4,011,536	3,962,161	3,817,895	3,767,278
Capital expenditures	$ 909,660	$ 1,004,621	$ 987,218	$ 755,032	$ 671,165

(1) Includes Loss on Impairment of intangible assets related to Goodwill in 2012 and Licenses in 2009.

(2) Dividends per share reflects the amount paid per share outstanding at the date the dividend was declared and has not been retroactively adjusted to reflect the impact of the Share Consolidation Amendment approved by TDS shareholders on January 13, 2012. See Note 15 — Common Shareholders' Equity for additional information.

Telephone and Data Systems, Inc.

CONSOLIDATED QUARTERLY INFORMATION (UNAUDITED)

	Quarter Ended			
(Amounts in thousands, except per share amounts)	**March 31**	**June 30**	**September 30**	**December 31**
2013				
Operating revenues	$ 1,308,573	$ 1,228,166	$ 1,180,980	$ 1,183,517
(Gain) loss on sale of business and other exit costs, net (1)	6,931	(303,034)	(1,534)	(3,019)
(Gain) loss on license sales and exchanges (1)	—	—	—	(255,479)
Operating income (loss) (1)(2)	7,154	282,227	(33,085)	(20,937)
Gain (loss) on investments (1)	—	14,518	—	29
Net income (loss) (1)(2)	6,989	178,397	(11,054)	(7,511)
Net income (loss) attributable to TDS shareholders	$ 1,419	$ 156,077	$ (9,512)	$ (6,057)
Basic weighted average shares outstanding	108,255	108,385	108,571	108,742
Basic earnings (loss) per share attributable to TDS shareholders	$ 0.01	$ 1.44	$ (0.09)	$ (0.06)
Diluted weighted average shares outstanding	108,693	108,913	108,571	108,742
Diluted earnings (loss) per share attributable to TDS shareholders	$ 0.01	$ 1.42	$ (0.09)	$ (0.06)
Stock price				
TDS Common Shares (3)				
High	$ 26.17	$ 24.87	$ 29.83	$ 31.52
Low	20.79	20.57	23.21	24.22
Close	21.07	24.65	29.55	25.78
Dividends paid	$ 0.1275	$ 0.1275	$ 0.1275	$ 0.1275

	Quarter Ended			
(Amounts in thousands, except per share amounts)	**March 31**	**June 30**	**September 30**	**December 31**
2012				
Operating revenues	$ 1,305,791	$ 1,323,169	$ 1,370,108	$ 1,346,209
(Gain) loss on sale of business and other exit costs, net (1)	(4,174)	—	65	25,170
Loss on impairment of intangible assets	—	515	—	—
Operating income (loss) (1)(2)	93,642	91,076	55,506	(56,361)
Gain (loss) on investments	—	(3,728)	—	10
Net income (loss) (1)(2)(4)	67,566	55,939	40,158	(41,010)
Net income (loss) attributable to TDS shareholders	$ 52,254	$ 42,337	$ 29,117	$ (41,847)
Basic weighted average shares outstanding	108,653	108,732	108,819	108,481
Basic earnings (loss) per share attributable to TDS shareholders	$ 0.48	$ 0.39	$ 0.27	$ (0.39)
Diluted weighted average shares outstanding	109,098	109,022	109,246	108,481
Diluted earnings (loss) per share attributable to TDS shareholders	$ 0.48	$ 0.39	$ 0.26	$ (0.39)
Stock price				
TDS Common Shares (3)				
High	$ 29.14	$ 24.77	$ 26.25	$ 26.99
Low	22.79	19.20	21.30	21.67
Close	23.15	21.29	25.61	22.14
Dividends paid	$ 0.1225	$ 0.1225	$ 0.1225	$ 0.1225

(1) See Note 5 — Acquisitions, Divestitures and Exchanges for additional information related to sales of businesses and spectrum licenses. See Note 7 — Investments in Unconsolidated Entities for additional information on Gain (loss) on investments in 2013.

(2) Management believes there exists a seasonality in operating expenses, which tend to be higher in the fourth quarter than in the other quarters due to increased marketing and promotional activities, which may cause operating income to vary from quarter to quarter.

(3) The high, low and closing sales prices as reported by the New York Stock Exchange ("NYSE").

(4) During the quarter ended December 31, 2012, TDS revised its method of amortizing capitalized debt issuance costs and original issue debt discounts from straight-line to the effective interest method. This change decreased interest expense for the quarter, and resulted in corresponding increase to Net income (loss) attributable to TDS shareholders for the quarter of $2.6 million.

Telephone and Data Systems, Inc.

SHAREHOLDER INFORMATION

Stock and dividend information

TDS' Common Shares are listed on the New York Stock Exchange ("NYSE") under the symbol "TDS." As of January 31, 2014, the last trading day of the month, TDS Common Shares were held by approximately 1,520 record owners, and the Series A Common Shares were held by approximately 100 record owners.

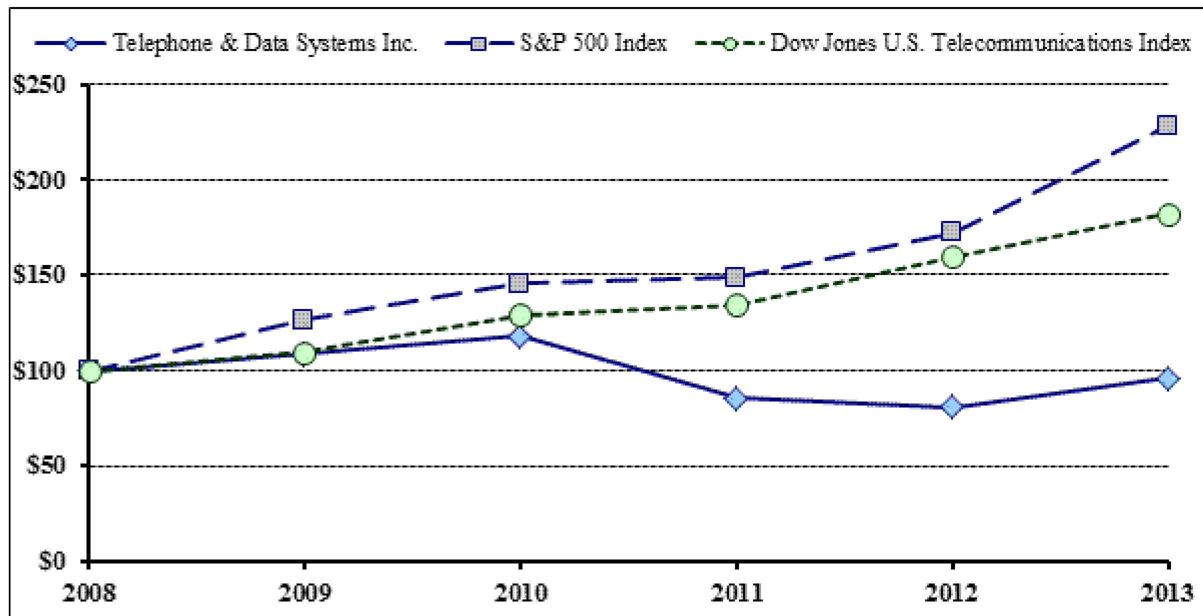
TDS has paid cash dividends on its common stock since 1974, and paid dividends of $0.51 per Common and Series A Common Share during 2013. During 2012, TDS paid dividends of $0.49 per Common and Series A Common Share.

The Common Shares of United States Cellular Corporation, an 84%-owned subsidiary of TDS, are listed on the NYSE under the symbol "USM."

See "Consolidated Quarterly Information (Unaudited)" for information on the high and low trading prices of the TDS Common Shares for 2013 and 2012.

Stock performance graph

The following chart provides a comparison of TDS' cumulative total return to shareholders (stock price appreciation plus dividends) during the previous five years to the returns of the Standard & Poor's 500 Composite Stock Price Index and the Dow Jones U.S. Telecommunications Index. As of December 31, 2013, the Dow Jones U.S. Telecommunications Index was composed of the following companies: AT&T Inc., CenturyLink Inc., Crown Castle International Corp., Frontier Communications Corp., Level 3 Communications Inc., NII Holdings Inc., SBA Communications Corp., Sprint Corp., T-Mobile US Inc., Telephone and Data Systems, Inc. (TDS), TW Telecom, Inc., Verizon Communications Inc., and Windstream Holdings, Inc.



* Cumulative total return assumes reinvestment of dividends.

	2008	2009	2010	2011	2012	2013
Telephone and Data Systems Common Shares (NYSE: TDS)	$ 100	$ 108.43	$ 118.33	$ 85.32	$ 80.97	$ 96.31
S&P 500 Index	100	126.46	145.51	148.59	172.37	228.19
Dow Jones U.S. Telecommunications Index	100	109.85	129.35	134.48	159.75	182.32

Assumes $100.00 invested at the close of trading on the last trading day preceding the first day of 2008, in TDS Common Shares, S&P 500 Index and the Dow Jones U.S. Telecommunications Index.

Dividend reinvestment plan

TDS' dividend reinvestment plans provide its common and preferred shareholders with a convenient and economical way to participate in the future growth of TDS. Holders of record of ten (10) or more Common Shares or Preferred Shares may purchase Common Shares with their reinvested dividends at a five percent discount from market price. Common Shares may also be purchased, at market price, on a monthly basis through optional cash payments by participants in this plan. The initial ten (10) shares cannot be purchased directly from TDS. An authorization card and prospectus will be mailed automatically by the transfer agent to all registered record holders with ten (10) or more shares. Once enrolled in the plan, there are no brokerage commissions or service charges for purchases made under the plan.

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Investor relations

TDS' annual report, SEC filings and news releases are available to investors, securities analysts and other members of the investment community. These reports are provided, without charge, upon request to our Corporate Office. Investors may also access these and other reports through the Investor Relations portion of the TDS website (www.teldta.com).

Questions regarding lost, stolen or destroyed certificates, consolidation of accounts, transferring of shares and name or address changes should be directed to:

Julie Mathews, Manager—Investor Relations
Telephone and Data Systems, Inc.
30 North LaSalle Street, Suite 4000
Chicago, IL 60602
312.592.5341
312.630.9299 (fax)
julie.mathews@teldta.com

General inquiries by investors, securities analysts and other members of the investment community should be directed to:

Jane W. McCahon, Vice President—Corporate Relations and Corporate Secretary
Telephone and Data Systems, Inc.
30 North LaSalle Street, Suite 4000
Chicago, IL 60602
312.592.5379
312.630.9299 (fax)
jane.mccahon@teldta.com

Directors and executive officers
See "Election of Directors" and "Executive Officers" sections of the Proxy Statement issued in 2014 for the 2014 Annual Meeting.

Principal counsel
Sidley Austin LLP, Chicago, Illinois

Transfer agent
Computershare Trust Company, N.A.
211 Quality Circle, Suite 210
College Station, TX 77845
877.337.1575

Independent registered public accounting firm
PricewaterhouseCoopers LLP

Visit TDS' web site at www.teldta.com

Exhibit 21

TELEPHONE AND DATA SYSTEMS, INC.
SUBSIDIARY COMPANIES
December 31, 2013

SUBSIDIARY COMPANIES	STATE OF ORGANIZATION
U.S. CELLULAR	
UNITED STATES CELLULAR CORPORATION	DELAWARE
BANGOR CELLULAR TELEPHONE, L.P.	DELAWARE
BARAT WIRELESS, INC.	DELAWARE
BARAT WIRELESS, L.P.	DELAWARE
CALIFORNIA RURAL SERVICE AREA #1, INC.	CALIFORNIA
CARROLL PCS, INC.	DELAWARE
CARROLL WIRELESS, L.P.	DELAWARE
CEDAR RAPIDS CELLULAR TELEPHONE, L.P.	DELAWARE
CELLVEST, INC.	DELAWARE
CENTRAL CELLULAR TELEPHONES, LTD.	ILLINOIS
CHAMPLAIN CELLULAR, INC.	NEW YORK
COMMUNITY CELLULAR TELEPHONE COMPANY	TEXAS
CROWN POINT CELLULAR, INC.	NEW YORK
DUBUQUE CELLULAR TELEPHONE, L.P.	DELAWARE
EASTERN NORTH CAROLINA CELLULAR JOINT VENTURE	DELAWARE
HARDY CELLULAR TELEPHONE COMPANY	DELAWARE
HUMPHREYS COUNTY CELLULAR, INC.	DELAWARE
INDIANA RSA # 5, INC.	INDIANA
INDIANA RSA NO. 4 LIMITED PARTNERSHIP	INDIANA
INDIANA RSA NO. 5 LIMITED PARTNERSHIP	INDIANA
IOWA RSA # 3, INC.	DELAWARE
IOWA RSA # 9, INC.	DELAWARE
IOWA RSA # 12, INC.	DELAWARE
JACKSONVILLE CELLULAR PARTNERSHIP	NORTH CAROLINA
JACKSONVILLE CELLULAR TELEPHONE COMPANY	NORTH CAROLINA
KANSAS #15 LIMITED PARTNERSHIP	DELAWARE
KENOSHA CELLULAR TELEPHONE, L.P.	DELAWARE
MADISON CELLULAR TELEPHONE COMPANY	WISCONSIN
MAINE RSA # 1, INC.	MAINE
MAINE RSA # 4, INC.	MAINE
MCDANIEL CELLULAR TELEPHONE COMPANY	DELAWARE
MINNESOTA INVCO OF RSA # 7, INC.	DELAWARE
NEWPORT CELLULAR, INC.	NEW YORK
NH #1 RURAL CELLULAR, INC.	NEW HAMPSHIRE
NORTH CAROLINA RSA 1 PARTNERSHIP	DELAWARE
OREGON RSA #2, INC.	OREGON
PCS WISCONSIN, LLC	WISCONSIN
RACINE CELLULAR TELEPHONE COMPANY	WISCONSIN
TENNESSEE NO. 3, LIMITED PARTNERSHIP	TENNESSEE
TEXAHOMA CELLULAR LIMITED PARTNERSHIP	TEXAS
TEXAS INVCO OF RSA # 6, INC.	DELAWARE
TOWNSHIP CELLULAR TELEPHONE, INC.	DELAWARE
UNITED STATES CELLULAR INVESTMENT CO. OF OKLAHOMA CITY, INC.	OKLAHOMA
UNITED STATES CELLULAR INVESTMENT COMPANY, LLC	DELAWARE
UNITED STATES CELLULAR INVESTMENT CORPORATION OF LOS ANGELES	INDIANA
UNITED STATES CELLULAR OPERATING COMPANY LLC	DELAWARE
UNITED STATES CELLULAR OPERATING COMPANY OF BANGOR	MAINE
UNITED STATES CELLULAR OPERATING COMPANY OF CEDAR RAPIDS	DELAWARE
UNITED STATES CELLULAR OPERATING COMPANY OF CHICAGO, LLC	DELAWARE

UNITED STATES CELLULAR OPERATING COMPANY OF DUBUQUE	IOWA
UNITED STATES CELLULAR OPERATING COMPANY OF KNOXVILLE	TENNESSEE
UNITED STATES CELLULAR OPERATING COMPANY OF MEDFORD	OREGON
UNITED STATES CELLULAR OPERATING COMPANY OF YAKIMA	WASHINGTON
UNITED STATES CELLULAR TELEPHONE COMPANY (GREATER KNOXVILLE), L.P.	TENNESSEE
USCC DISTRIBUTION CO., LLC	DELAWARE
USCC FINANCIAL L.L.C.	ILLINOIS
USCC PURCHASE, LLC	DELAWARE
USCC REAL ESTATE CORPORATION	DELAWARE
USCC SERVICES, LLC	DELAWARE
USCC WIRELESS INVESTMENT, INC.	DELAWARE
USCCI CORPORATION	DELAWARE
USCIC OF FRESNO	CALIFORNIA
USCIC OF NORTH CAROLINA RSA # 1, INC.	DELAWARE
USCOC NEBRASKA/KANSAS, INC.	DELAWARE
USCOC NEBRASKA/KANSAS, LLC	DELAWARE
USCOC OF CENTRAL ILLINOIS, LLC	ILLINOIS
USCOC OF CHICAGO REAL ESTATE HOLDINGS, LLC	DELAWARE
USCOC OF CUMBERLAND, LLC	DELAWARE
USCOC OF GREATER IOWA, LLC	DELAWARE
USCOC OF GREATER MISSOURI, LLC	DELAWARE
USCOC OF GREATER NORTH CAROLINA, LLC	DELAWARE
USCOC OF GREATER OKLAHOMA, LLC	OKLAHOMA
USCOC OF JACK/WIL, INC.	DELAWARE
USCOC OF JACKSONVILLE, LLC	DELAWARE
USCOC OF LACROSSE, LLC	WISCONSIN
USCOC OF OREGON RSA # 5, INC.	DELAWARE
USCOC OF PENNSYLVANIA RSA NO. 10-B2, INC.	DELAWARE
USCOC OF RICHLAND, INC.	WASHINGTON
USCOC OF ROCHESTER, INC.	DELAWARE
USCOC OF SOUTH CAROLINA RSA # 4, INC.	SOUTH CAROLINA
USCOC OF TEXAHOMA, INC.	TEXAS
USCOC OF VIRGINIA RSA # 3, INC.	VIRGINIA
USCOC OF WASHINGTON-4, INC.	DELAWARE
USCOC OF WILMINGTON, LLC	DELAWARE
VERMONT RSA NO. 2-B2, INC.	DELAWARE
WASHINGTON RSA # 5, INC.	WASHINGTON
WESTELCOM CELLULAR, INC.	NEW YORK
WESTERN SUB-RSA LIMITED PARTNERSHIP	DELAWARE
WILMINGTON CELLULAR PARTNERSHIP	NORTH CAROLINA
WILMINGTON CELLULAR TELEPHONE COMPANY	NORTH CAROLINA
YAKIMA MSA LIMITED PARTNERSHIP	DELAWARE
TDS TELECOMMUNICATIONS	
TDS TELECOMMUNICATIONS CORPORATION	DELAWARE
INCUMBENT LOCAL EXCHANGE COMPANIES	
AMELIA TELEPHONE CORPORATION	VIRGINIA
ARCADIA TELEPHONE COMPANY	OHIO
ARIZONA TELEPHONE COMPANY	ARIZONA
ARVIG TELEPHONE COMPANY	MINNESOTA
ASOTIN TELEPHONE COMPANY	WASHINGTON
BADGER TELECOM, LLC	DELAWARE
BARNARDSVILLE TELEPHONE COMPANY	NORTH CAROLINA
BLACK EARTH TELEPHONE COMPANY, LLC	DELAWARE
BLUE RIDGE TELEPHONE COMPANY	GEORGIA
BONDUEL TELEPHONE COMPANY, LLC	DELAWARE
BRIDGE WATER TELEPHONE COMPANY	MINNESOTA
BURLINGTON, BRIGHTON & WHEATLAND TELEPHONE COMPANY, LLC	DELAWARE
BUTLER TELEPHONE COMPANY, INC.	ALABAMA

CALHOUN CITY TELEPHONE COMPANY, INC.	MISSISSIPPI
CAMDEN TELEPHONE AND TELEGRAPH COMPANY, INC.	GEORGIA
CAMDEN TELEPHONE COMPANY, INC.	INDIANA
CENTRAL STATE TELEPHONE COMPANY, LLC	DELAWARE
CHATHAM TELEPHONE COMPANY	MICHIGAN
CLEVELAND COUNTY TELEPHONE COMPANY, INC.	ARKANSAS
COBBOSSEECONTEE TELEPHONE COMPANY	MAINE
COMMUNICATION CORPORATION OF MICHIGAN	MICHIGAN
COMMUNICATIONS CORPORATION OF INDIANA	INDIANA
COMMUNICATIONS CORPORATION OF SOUTHERN INDIANA	INDIANA
CONCORD TELEPHONE EXCHANGE, INC.	TENNESSEE
CONTINENTAL TELEPHONE COMPANY	OHIO
DECATUR TELEPHONE COMPANY, INC.	ARKANSAS
DELTA COUNTY TELE-COMM, INC.	COLORADO
DEPOSIT TELEPHONE COMPANY, INC.	NEW YORK
DICKEYVILLE TELEPHONE, LLC	DELAWARE
EASTCOAST TELECOM OF WISCONSIN, LLC	DELAWARE
EDWARDS TELEPHONE COMPANY, INC.	NEW YORK
GRANTLAND TELECOM, LLC	DELAWARE
HAMPDEN TELEPHONE COMPANY	MAINE
HAPPY VALLEY TELEPHONE COMPANY	CALIFORNIA
HARTLAND & ST. ALBANS TELEPHONE COMPANY	MAINE
HOLLIS TELEPHONE COMPANY, INC.	NEW HAMPSHIRE
HOME TELEPHONE COMPANY	OREGON
HOME TELEPHONE COMPANY, INC.	INDIANA
HORNITOS TELEPHONE CO.	CALIFORNIA
HUMPHREYS COUNTY TELEPHONE COMPANY	TENNESSEE
ISLAND TELEPHONE COMPANY	MICHIGAN
KEARSARGE TELEPHONE COMPANY	NEW HAMPSHIRE
LESLIE COUNTY TELEPHONE COMPANY	KENTUCKY
LEWIS RIVER TELEPHONE COMPANY, INC.	WASHINGTON
LEWISPORT TELEPHONE COMPANY	KENTUCKY
LITTLE MIAMI COMMUNICATIONS CORPORATION	OHIO
LUDLOW TELEPHONE COMPANY	VERMONT
MAHANOY & MAHANTANGO TELEPHONE COMPANY	PENNSYLVANIA
MCCLELLANVILLE TELEPHONE COMPANY, INC.	SOUTH CAROLINA
MCDANIEL TELEPHONE COMPANY	WASHINGTON
MERRIMACK COUNTY TELEPHONE COMPANY	NEW HAMPSHIRE
MID-AMERICA TELEPHONE, INC.	OKLAHOMA
MID-PLAINS TELEPHONE, LLC	DELAWARE
MID-STATE TELEPHONE COMPANY	MINNESOTA
MIDWAY TELEPHONE COMPANY, LLC	DELAWARE
MOSINEE TELEPHONE COMPANY, LLC	DELAWARE
MT. VERNON TELEPHONE COMPANY, LLC	DELAWARE
MYRTLE TELEPHONE COMPANY, INC.	MISSISSIPPI
NELSON-BALL GROUND TELEPHONE COMPANY	GEORGIA
NEW CASTLE TELEPHONE COMPANY	VIRGINIA
NEW LONDON TELEPHONE COMPANY	MISSOURI
NORTHFIELD TELEPHONE COMPANY	VERMONT
NORWAY TELEPHONE COMPANY, INC.	SOUTH CAROLINA
OAKMAN TELEPHONE COMPANY, INC.	ALABAMA
OAKWOOD TELEPHONE COMPANY	OHIO
OKLAHOMA COMMUNICATION SYSTEMS, INC.	OKLAHOMA
ORCHARD FARM TELEPHONE COMPANY	MISSOURI
ORISKANY FALLS TELEPHONE CORPORATION	NEW YORK
PEOPLES TELEPHONE COMPANY, INC.	ALABAMA
PERKINSVILLE TELEPHONE COMPANY, INC.	VERMONT
PORT BYRON TELEPHONE COMPANY	NEW YORK
POTLATCH TELEPHONE COMPANY	IDAHO

QUINCY TELEPHONE COMPANY	FLORIDA
RIVERSIDE TELECOM, LLC	DELAWARE
S & W TELEPHONE COMPANY, INC.	INDIANA
SALEM TELEPHONE COMPANY	KENTUCKY
SALUDA MOUNTAIN TELEPHONE COMPANY	NORTH CAROLINA
SCANDINAVIA TELEPHONE COMPANY, LLC	DELAWARE
SERVICE TELEPHONE COMPANY	NORTH CAROLINA
SHIAWASSEE TELEPHONE COMPANY	MICHIGAN
SOMERSET TELEPHONE COMPANY	MAINE
SOUTHEAST MISSISSIPPI TELEPHONE COMPANY, INC.	MISSISSIPPI
SOUTHEAST TELEPHONE CO. OF WISCONSIN, LLC	DELAWARE
SOUTHWESTERN TELEPHONE COMPANY	ARIZONA
ST. STEPHEN TELEPHONE COMPANY	SOUTH CAROLINA
STOCKBRIDGE & SHERWOOD TELEPHONE COMPANY, LLC.	DELAWARE
STRASBURG TELEPHONE COMPANY	COLORADO
SUGAR VALLEY TELEPHONE COMPANY	PENNSYLVANIA
TELLICO TELEPHONE COMPANY, INC.	TENNESSEE
TENNESSEE TELEPHONE COMPANY	TENNESSEE
TENNEY TELEPHONE COMPANY, LLC	DELAWARE
THE FARMERS TELEPHONE COMPANY, LLC	DELAWARE
THE HOME TELEPHONE COMPANY OF PITTSBORO, INC.	INDIANA
THE ISLAND TELEPHONE COMPANY	MAINE
THE MERCHANTS AND FARMERS TELEPHONE COMPANY	INDIANA
THE STATE LONG DISTANCE TELEPHONE COMPANY, LLC	DELAWARE
THE STOUTLAND TELEPHONE COMPANY	MISSOURI
THE VANLUE TELEPHONE COMPANY	OHIO
THE WEST PENOBSCOT TELEPHONE & TELEGRAPH COMPANY	MAINE
TIPTON TELEPHONE COMPANY, INC.	INDIANA
TOWNSHIP TELEPHONE COMPANY, INC.	NEW YORK
TRI-COUNTY TELEPHONE COMPANY, INC.	INDIANA
UNION TELEPHONE COMPANY	NEW HAMPSHIRE
UTELCO, LLC	DELAWARE
VERNON TELEPHONE COMPANY, INC.	NEW YORK
VIRGINIA TELEPHONE COMPANY	VIRGINIA
WARREN TELEPHONE COMPANY	MAINE
WAUNAKEE TELEPHONE COMPANY, LLC	DELAWARE
WEST POINT TELEPHONE COMPANY, INCORPORATED	INDIANA
WILLISTON TELEPHONE COMPANY	SOUTH CAROLINA
WILTON TELEPHONE COMPANY, INC.	NEW HAMPSHIRE
WINSTED TELEPHONE COMPANY	MINNESOTA
WINTERHAVEN TELEPHONE COMPANY	CALIFORNIA
WOLVERINE TELEPHONE COMPANY	MICHIGAN
WYANDOTTE TELEPHONE COMPANY	OKLAHOMA
OTHER COMPANIES	
TDS COMMUNICATION SOLUTIONS, INC.	DELAWARE
TDS LONG DISTANCE CORPORATION	DELAWARE
TDS METROCOM, LLC	DELAWARE
TDS TELECOM SERVICE CORPORATION	IOWA
TRI-COUNTY COMMUNICATIONS CORPORATION	INDIANA
U.S. LINK, INC.	MINNESOTA
TDS GROUP	
AFFILIATE FUND	DELAWARE
AIRADIGM COMMUNICATIONS, INC.	WISCONSIN
COMMVEST, INC.	DELAWARE
M.C.T. COMMUNICATIONS, INC.	NEW HAMPSHIRE
MSN COMMUNICATIONS, INC.	COLORADO
NATIONAL TELEPHONE & TELEGRAPH COMPANY	DELAWARE

ONENECK IT SERVICES CORPORATION	DELAWARE
ONENECK IT SOLUTIONS LLC	DELAWARE
ONENECK UK LIMITED	UNITED KINGDOM
SUTTLE-STRAUS, INC.	WISCONSIN
TDS BAJA BROADBAND, LLC	DELAWARE
TDS BROADBAND, LLC	DELAWARE
TEAM DES MOINES PARTNERS, LLC	DELAWARE
TEAM MADISON PARTNERS, LLC	IOWA
TEAM TECHNOLOGIES, LLC	DELAWARE
TDSI CORPORATION	DELAWARE
VISI INCORPORATED	DELAWARE
VITAL SUPPORT SYSTEMS, LLC	IOWA
OTHER ENTITIES CONSOLIDATED IN ACCORDANCE WITH GAAP	
AQUINAS WIRELESS, L.P.	DELAWARE
KING STREET WIRELESS, L.P.	DELAWARE
KING STREET WIRELESS, INC.	DELAWARE

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S−3 (Nos. 333-188965, 333-188969 and 333-190907), Form S-4 (No. 33-64293) and Form S-8 (Nos. 333-58127, 333-105676, 333-179702, 333-179703, 333-185143 and 333-190330) of Telephone and Data Systems, Inc. of our report dated February 28, 2014, relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10−K.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
February 28, 2014

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements on Form S-3 (Nos. 333-188965, 333-188969 and 333-190907), in the Registration Statement on Form S-4 (No. 33-64293), and in the Registration Statements on Form S-8 (Nos. 333-58127, 333-105676, 333-179702, 333-179703, 333-185143, and 333-190330) of Telephone and Data Systems, Inc. of our report dated February 28, 2014, relating to the financial statements of Los Angeles SMSA Limited Partnership as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, appearing in the Annual Report on Form 10-K of Telephone and Data Systems, Inc. for the year ended December 31, 2013.

/s/ Deloitte & Touche LLP
Atlanta, Georgia
February 28, 2014

Exhibit 31.1

Certification of Principal Executive Officer

I, LeRoy T. Carlson, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Telephone and Data Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2014

/s/ LeRoy T. Carlson, Jr.
LeRoy T. Carlson, Jr.
President and Chief Executive Officer
(principal executive officer)

Exhibit 31.2

Certification of Principal Financial Officer

I, Douglas D. Shuma, certify that:

1. I have reviewed this annual report on Form 10-K of Telephone and Data Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2014

/s/ Douglas D. Shuma
Douglas D. Shuma
Senior Vice President and Controller
(principal financial officer and principal accounting officer)

Exhibit 32.1

Certification Pursuant to Section 1350 of Chapter 63
of Title 18 of the United States Code

I, LeRoy T. Carlson, Jr., the principal executive officer of Telephone and Data Systems, Inc., certify that (i) the annual report on Form 10-K for the year ended December 31, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Telephone and Data Systems, Inc.

/s/ LeRoy T. Carlson, Jr.
LeRoy T. Carlson, Jr.
February 28, 2014

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Telephone and Data Systems, Inc. and will be retained by Telephone and Data Systems, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certification Pursuant to Section 1350 of Chapter 63
of Title 18 of the United States Code

I, Douglas D. Shuma, the principal financial officer of Telephone and Data Systems, Inc., certify that (i) the annual report on Form 10-K for the year ended December 31, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Telephone and Data Systems, Inc.

/s/ Douglas D. Shuma
Douglas D. Shuma
February 28, 2014

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Telephone and Data Systems, Inc. and will be retained by Telephone and Data Systems, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.