TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-Q
August 03, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from to

Commission File Number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-2669023**
(State or other jurisdiction or incorporation of	(I.R.S. Employer Identification No.)

organization)

30 North LaSalle Street, Chicago, Illinois 60602
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(312) 630-1900**

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 x 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 x No ¨

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 x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
(Do not check if a 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 x

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

Class	Outstanding at June 30, 2012
Common Shares, $.01 par value	101,495,552 Shares
Series A Common Shares, $.01 par value	7,135,334 Shares

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Telephone and Data Systems, Inc.

Quarterly Report on Form 10-Q
For the Quarterly Period Ended June 30, 2012

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Part I. Financial Information
Item 1. Financial Statements

Telephone and Data Systems, Inc.

Consolidated Statement of Operations

(Unaudited)

(Dollars and shares in thousands, except per share amounts)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating revenues	$ 1,323,169	$ 1,279,640	$ 2,628,960	$ 2,538,321
Operating expenses				
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	527,670	476,118	1,036,881	965,159
Selling, general and administrative	502,404	479,884	1,010,003	968,695
Depreciation, amortization and accretion	198,509	193,045	395,943	383,858
Loss on impairment of intangible assets	515	—	515	—
Loss on asset disposals, net	2,995	3,238	900	4,381
Total operating expenses	1,232,093	1,152,285	2,444,242	2,322,093
Operating income	91,076	127,355	184,718	216,228
Investment and other income (expense)				
	25,392	22,590	48,781	41,978

Equity in earnings of unconsolidated entities								
Interest and dividend income		2,352		2,093		4,535		4,717
Gain (loss) on investment		(3,728)		13,373		(3,728)		13,373
Interest expense		(23,139)		(45,417)		(47,603)		(71,926)
Other, net		(249)		1,306		(21)		1,386
Total investment and other income (expense)		628		(6,055)		1,964		(10,472)
Income before income taxes		91,704		121,300		186,682		205,756
Income tax expense		35,765		11,560		63,177		41,719
Net income		55,939		109,740		123,505		164,037
Less: Net income attributable to noncontrolling interests, net of tax		(13,602)		(17,786)		(28,914)		(28,579)
Net income attributable to TDS shareholders		42,337		91,954		94,591		135,458
Preferred dividend requirement		(12)		(12)		(25)		(25)
Net income available to common shareholders	$	42,325	$	91,942	$	94,566	$	135,433
Basic weighted average shares outstanding (1)		108,732		108,423		108,693		108,678
Basic earnings per share attributable to TDS shareholders (1)	$	0.39	$	0.85	$	0.87	$	1.25
Diluted weighted average shares outstanding (1)		109,022		109,133		108,964		109,385
Diluted earnings per share attributable to TDS shareholders (1)	$	0.39	$	0.84	$	0.86	$	1.23
Dividends per share (2)	$	0.1225	$	0.1175	$	0.2450	$	0.2350

(1) On January 13, 2012, TDS shareholders approved a Share Consolidation Amendment to the Restated Certificate of Incorporation of TDS. Average basic and diluted shares outstanding used to calculate earnings per share for the comparative periods presented have been retroactively restated to reflect the impact of the increased shares outstanding as a result of the Share Consolidation Amendment.

(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.

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

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Telephone and Data Systems, Inc.

Consolidated Statement of Comprehensive Income

(Unaudited)

(Dollars in thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income	$ 55,939	$ 109,740	$ 123,505	$ 164,037
Net change in accumulated other comprehensive income				
Change in net unrealized gain (loss) on equity investments	49	138	49	138
Change related to retirement plan				
Amounts included in net periodic benefit cost for the period				
Amortization of prior service cost	(934)	(954)	(1,868)	(1,908)
Amortization of unrecognized net loss	623	480	1,246	960
	(311)	(474)	(622)	(948)
Change in deferred income taxes	463	523	933	1,046
Change related to retirement plan, net of tax	152	49	311	98
Net change in accumulated other comprehensive income	201	187	360	236
Comprehensive income	56,140	109,927	123,865	164,273
Less: Comprehensive income attributable to noncontrolling interest	(13,602)	(17,786)	(28,914)	(28,579)
Comprehensive income attributable to TDS Shareholders	$ 42,538	$ 92,141	$ 94,951	$ 135,694

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

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Telephone and Data Systems, Inc.

Consolidated Statement of Cash Flows

(Unaudited)

(Dollars in thousands)	Six Months Ended June 30, 2012	2011
Cash flows from operating activities		
Net income	$ 123,505	$ 164,037
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities		
Depreciation, amortization and accretion	395,943	383,858
Bad debts expense	33,626	29,906
Stock-based compensation expense	20,955	18,913
Deferred income taxes, net	29,929	79,637
Equity in earnings of unconsolidated entities	(48,781)	(41,978)
Distributions from unconsolidated entities	6,973	47,375
Loss on impairment of intangible assets	515	—
Loss on asset disposals, net	900	4,381
(Gain) loss on investment	3,728	(13,373)
Noncash interest expense	1,728	17,147
Other operating activities	1,010	1,070
Changes in assets and liabilities from operations		
Accounts receivable	(10,197)	(37,819)
Inventory	(58,467)	(48,826)
Accounts payable	(23,336)	24,678
Customer deposits and deferred revenues	22,786	22,600
Accrued taxes	89,433	(459)
Accrued interest	(1,823)	1,355
Other assets and liabilities	(81,517)	(90,291)
	506,910	562,211

Cash flows from investing activities		
Cash used for additions to property, plant and equipment	(501,211)	(350,856)
Cash paid for acquisitions and licenses	(52,213)	(22,167)
Cash received from divestitures	50,036	—
Cash paid for investments	(45,000)	(71,000)
Cash received for investments	128,444	213,030
Other investing activities	(8,916)	(816)
	(428,860)	(231,809)
Cash flows from financing activities		
Repayment of long-term debt	(952)	(613,387)
Issuance of long-term debt	358	643,700
TDS Common Shares and Special Common Shares reissued for benefit plans, net of tax payments	(39)	1,055
U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	(2,465)	1,264
Repurchase of TDS Common and Special Common Shares	—	(21,500)
Repurchase of U.S. Cellular Common Shares	—	(62,308)
Dividends paid	(26,610)	(24,343)
Payment of debt issuance costs	—	(21,191)
Distributions to noncontrolling interests	(643)	(1,377)
Other financing activities	2,790	2,077
	(27,561)	(96,010)
Cash classified as held for sale	—	(5,687)
Net increase in cash and cash equivalents	50,489	228,705
Cash and cash equivalents		
Beginning of period	563,275	341,683
End of period	$ 613,764	$ 570,388

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

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Telephone and Data Systems, Inc.

Consolidated Balance Sheet — Assets

(Unaudited)

(Dollars in thousands)	June 30, 2012	December 31, 2011
Current assets		
Cash and cash equivalents	$ 613,764	$ 563,275
Short-term investments	150,921	246,273
Accounts receivable		
Due from customers and agents, less allowances of $25,195 and $25,738, respectively	380,629	393,978
Other, less allowances of $6,186 and $5,333, respectively	161,527	148,599
Inventory	189,242	130,044
Net deferred income tax asset	44,598	40,898
Prepaid expenses	86,794	80,628
Income taxes receivable	9,376	85,636
Other current assets	19,224	16,349
	1,656,075	1,705,680
Assets held for sale	—	49,647
Investments		
Licenses	1,507,447	1,494,014
Goodwill	816,668	797,077
Other intangible assets, net of accumulated amortization of $136,851 and $131,101, respectively	65,285	50,734
Investments in unconsolidated entities	213,049	173,710
Long-term investments	55,468	45,138
Other investments	1,017	3,072
	2,658,934	2,563,745

Property, plant and equipment				
In service and under construction		10,482,936		10,197,596
Less: Accumulated depreciation		6,629,649		6,413,061
		3,853,287		3,784,535
Other assets and deferred charges		115,435		97,398
Total assets	$	8,283,731	$	8,201,005

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

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Telephone and Data Systems, Inc.

Consolidated Balance Sheet — Liabilities and Equity

(Unaudited)

(Dollars and shares in thousands)	June 30, 2012	December 31, 2011
Current liabilities		
Current portion of long-term debt	$ 1,283	$ 1,509
Accounts payable	310,610	364,746
Customer deposits and deferred revenues	231,743	207,633
Accrued interest	5,522	7,456
Accrued taxes	53,698	41,069
Accrued compensation	83,080	107,719
Other current liabilities	105,640	144,001
	791,576	874,133
Liabilities held for sale	—	1,051
Deferred liabilities and credits		
Net deferred income tax liability	847,725	808,713
Other deferred liabilities and credits	391,898	383,567
Long-term debt	1,529,836	1,529,857
Commitments and contingencies	—	—
Noncontrolling interests with redemption features	1,050	1,005
Equity		

TDS shareholders' equity				
Series A Common and Common Shares (1)				
Authorized 290,000 shares (25,000 Series A Common and 265,000 Common Shares) (1)				
Issued 132,647 shares (7,135 Series A Common and 125,512 Common Shares) and 132,621 shares (7,119 Series A Common and 125,502 Common Shares), respectively (1)				
Outstanding 108,631 shares (7,135 Series A Common and 101,496 Common Shares) and 108,456 shares (7,119 Series A Common and 101,337 Common Shares), respectively (1)				
Par Value ($.01 per share) ($71 Series A Common and $1,255 Common Shares) (1)		1,326		1,326
Capital in excess of par value (1)		2,280,802		2,268,711
Treasury shares at cost:				
24,017 and 24,165 Common Shares, respectively (1)		(742,906)		(750,921)
Accumulated other comprehensive loss		(8,494)		(8,854)
Retained earnings (1)		2,514,327		2,451,899
Total TDS shareholders' equity		4,045,055		3,962,161
Preferred shares		830		830
Noncontrolling interests		675,761		639,688
Total equity		4,721,646		4,602,679
Total liabilities and equity	$	8,283,731	$	8,201,005

(1) The December 31, 2011 amounts reflect 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.

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

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Telephone and Data Systems, Inc.
Consolidated Statement of Changes in Equity
(Unaudited)

	TDS Shareholders								
(Dollars in thousands)	**Series A Common and Common Shares (1)**	**Capital in Excess of Par Value (1)**	**Treasury Common Shares(1)**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings (1)**	**Total TDS Shareholders' Equity (1)**	**Preferred Shares**	**Noncontrolling Interests**	**Total Equity (1)**
December 31, 2011	**$ 1,326**	**$ 2,268,711**	**$ (750,921)**	**$ (8,854)**	**$ 2,451,899**	**$ 3,962,161**	**$ 830**	**$ 639,688**	**$ 4,602,679**
Add (Deduct)									
Net income attributable to TDS shareholders	—	—	—	—	94,591	94,591	—	—	94,591
Net income attributable to noncontrolling interests classified as equity	—	—	—	—	—	—	—	28,869	28,869
Change in net unrealized gain (loss) on equity investments	—	—	—	49	—	49	—	—	49
Change related to retirement plan	—	—	—	311	—	311	—	—	311
Common and Series A Common Shares	—	—	—	—	(26,585)	(26,585)	—	—	(26,585)

dividends									
Preferred dividend requirement	—	—	—	—	(25)	(25)	—	—	(25)
Dividend reinvestment plan	—	581	6,764	—	(4,196)	3,149	—	—	3,149
Incentive and compensation plans	—	444	1,251	—	(1,357)	338	—	—	338
Adjust investment in subsidiaries for repurchases, issuances, and other compensation plans	—	1,438	—	—	—	1,438	—	7,763	9,201
Stock-based compensation awards (2)	—	9,711	—	—	—	9,711	—	—	9,711
Tax windfall (shortfall) from stock awards (3)	—	(83)	—	—	—	(83)	—	—	(83)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(643)	(643)
Other	—	—	—	—	—	—	—	84	84
June 30, 2012	**$ 1,326**	**$ 2,280,802**	**$ (742,906)**	**$ (8,494)**	**$ 2,514,327**	**$ 4,045,055**	**$ 830**	**$ 675,761**	**$ 4,721,646**

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

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Telephone and Data Systems, Inc.

Consolidated Statement of Changes in Equity

(Unaudited)

	TDS Shareholders								
(Dollars in thousands)	**Series A Common, Special Common and Common Shares**	**Capital in Excess of Par Value**	**Treasury Special Common and Common 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	—	—	—	—	135,458	135,458	—	—	135,458
Net income attributable to noncontrolling interests classified as equity	—	—	—	—	—	—	—	28,571	28,571
Change in net unrealized gain (loss) on equity investments	—	—	—	138	—	138	—	—	138
Change related to retirement plan	—	—	—	98	—	98	—	—	98
Common, Special Common and Series A Common	—	—	—	—	(24,318)	(24,318)	—	—	(24,318)

Shares dividends									
Preferred dividend requirement	—	—	—	—	(25)	(25)	—	—	(25)
Repurchase of shares	—	—	(21,500)	—	—	(21,500)	—	—	(21,500)
Dividend reinvestment plan	—	66	2,534	—	(649)	1,951	—	—	1,951
Incentive and compensation plans	—	577	1,377	—	(456)	1,498	—	—	1,498
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	—	(8,133)	—	—	—	(8,133)	—	(43,281)	(51,414)
Stock-based compensation awards (2)	—	8,115	—	—	—	8,115	—	—	8,115
Tax windfall (shortfall) from stock awards (3)	—	(274)	—	—	—	(274)	—	—	(274)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(1,377)	(1,377)
June 30, 2011	**$ 1,270**	**$ 2,108,280**	**$ (756,284)**	**$ (2,972)**	**$ 2,560,609**	**$ 3,910,903**	**$ 830**	**$ 630,926**	**$ 4,542,659**

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(1) The December 31, 2011 amounts reflect 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.

(2) Reflects TDS Corporate and TDS Telecom's current year stock-based compensation awards impact on Capital in excess of par value. U.S. Cellular's amounts are included in Adjust investment in subsidiaries for repurchases, issuances and other compensation plans.

(3) Reflects tax windfalls/(shortfalls) associated with the exercise of options and the vesting of restricted stock awards of TDS Common Shares and TDS Special Common Shares. U.S. Cellular's tax windfalls/(shortfalls) associated with the exercise of options and vesting of restricted stock awards of U.S. Cellular are included in Adjust investment in subsidiaries for repurchases, issuances, and other compensation plans.

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The accounting policies of Telephone and Data Systems, Inc. ("TDS") conform to accounting principles generally accepted in the United States of America ("GAAP") as set forth in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The consolidated financial statements include the accounts of TDS and its majority-owned subsidiaries, including TDS' 84%-owned wireless telephone subsidiary, United States Cellular Corporation ("U.S. Cellular"), TDS' wholly-owned wireline telephone subsidiary, TDS Telecommunications Corporation ("TDS Telecom"), TDS' majority-owned printing and distribution company, Suttle-Straus, Inc. and TDS' majority-owned wireless telephone subsidiary Airadigm Communications, Inc. ("Airadigm"). In addition, the consolidated financial statements include certain entities in which TDS has a variable interest that require consolidation under GAAP. All material intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the 2012 presentation.

The consolidated financial statements included herein have been prepared by TDS, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, TDS believes that the disclosures included herein are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in TDS' Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2011.

Historically, TDS had reported the following business segments: U.S. Cellular, Incumbent Local Exchange Carrier ("ILEC") (which included Hosted and Managed Services ("HMS") operations), Competitive Local Exchange Carrier ("CLEC"), and Non-Reportable Segment which includes Suttle-Straus and Airadigm. TDS' Corporate operations and intercompany eliminations have been included in "Other Reconciling Items" for purposes of business segment disclosure. As a result of recent acquisitions and changes in TDS' strategy, operations, personnel and internal reporting, TDS reevaluated and changed its reportable business segments in the quarter ended March 31, 2012. As a result, TDS' business segments reflected in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012, are U.S. Cellular, ILEC, CLEC, HMS and the Non-Reportable Segment. Periods presented for comparative purposes have been re-presented to conform to this revised presentation.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items, unless otherwise disclosed) necessary for a fair statement of the financial position as of June 30, 2012 and December 31, 2011, and the results of operations and changes in comprehensive income for the three and six months ended June 30, 2012 and 2011 and cash flows and changes in equity for the six months ended June 30, 2012 and 2011. The results of operations and comprehensive income for the three and six months ended June 30, 2012 and 2011, and cash flows and changes in equity for the six months ended June 30, 2012 and 2011 are not necessarily indicative of the results to be expected for the full year.

Recent Accounting Pronouncements

On July 27, 2012, the FASB issued Accounting Standards Update 2012-02, *Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* ("ASU 2012-02"). ASU 2012-02 is intended to reduce the cost and complexity of the annual indefinite-lived intangible assets impairment testing by providing entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. As such, there is the possibility that quantitative assessments would not need to be performed if it is more likely than not that no impairment exists. TDS is required to adopt the provisions of ASU 2012-02, which is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of ASU 2012-02 is not expected to have a significant impact on TDS' financial position or results of operations.

Agent Liabilities

U.S. Cellular has relationships with agents, which are independent businesses that obtain customers for U.S. Cellular. At June 30, 2012 and December 31, 2011, U.S. Cellular had accrued $50.2 million and $75.3 million, respectively, for amounts due to agents, including rebates and commissions. These amounts are included in Other current liabilities in the Consolidated Balance Sheet.

Amounts Collected from Customers and Remitted to Governmental Authorities

If a tax is assessed upon the customer and TDS merely acts as an agent in collecting the tax on behalf of the imposing governmental authority, then amounts collected from customers and remitted to governmental authorities are recorded on a net basis within a tax liability account in the Consolidated Balance Sheet. If the tax is assessed upon TDS, then amounts collected from customers as recovery of the tax are recorded in Operating revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled $38.9 million and $78.4 million for the three and six months ended June 30, 2012, respectively, and $35.1 million and $70.7 million for the three and six months ended June 30, 2011, respectively.

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2. Revision of Prior Period Amounts

In preparing its Consolidated Statement of Cash Flows for the year ended December 31, 2011, TDS discovered certain errors related to the classification of outstanding checks with the right of offset and the classification of Accounts payable for Additions to property, plant and equipment. These errors resulted in the misstatement of Cash and cash equivalents and Accounts payable as of December 31, 2010 and each quarterly period in 2011, and the misstatement of Cash flows from operating activities and Cash flows from investing activities for the years ended December 31, 2010 and 2009 and each of the quarterly periods in 2011 and 2010. In accordance with *SEC Staff Accounting Bulletin Nos. 99 and 108* (“SAB 99” and “SAB 108”), TDS evaluated these errors and determined that they were immaterial to each of the reporting periods affected and, therefore, amendment of previously filed reports was not required. However, in order to provide consistency in the Consolidated Statement of Cash Flows and as permitted by SAB 108, revisions for these immaterial amounts to previously reported amounts were reflected in the financial information as of and for the periods ended December 31, 2011, are reflected in the financial information herein and will be reflected in future filings containing such financial information.

In preparing its financial statements for the nine months ended September 30, 2011, TDS discovered certain errors related to accounting for asset retirement obligations and asset retirement costs. These errors resulted in the overstatement of Total operating expenses, Property, plant and equipment, net and Other deferred liabilities and credits in the first and second quarter 2011 interim financial statements and in the 2010, 2009 and 2008 annual periods reported in the Company’s December 31, 2010 financial statements. In addition to these errors, TDS identified two other immaterial errors, related to interest expense and income tax expense that impacted the year ended December 31, 2010. The December 31, 2007 Retained earnings balance presented in the December 31, 2010 annual financial statements also was overstated as a result of these errors. In accordance with SAB 99 and SAB 108, TDS evaluated these errors and determined that they were immaterial to each of the reporting periods affected and, therefore, amendments of previously filed reports were not required. However, if the adjustments to correct the cumulative errors had been recorded in the third quarter 2011, TDS believes that the impact would have been significant to the third quarter results and would have impacted comparisons to prior periods. As permitted by SAB 108, revisions for these immaterial amounts to previously reported annual and quarterly results were reflected in the financial information as of and for the periods ended September 30, 2011 and December 31, 2011, and are reflected in the financial information herein.

In accordance with SAB 108, the combined effects of the foregoing revisions to the Consolidated Statement of Operations and the Consolidated Statement of Cash Flows were as follows:

Consolidated Statement of Operations — Three Months Ended June 30, 2011

(Dollars in thousands except per share amounts)	**As previously reported (1)**	**Adjustment (2)**	**Revised**
Depreciation, amortization and accretion	$ 194,751	$ (1,706)	$ 193,045
Total operating expenses	1,153,991	(1,706)	1,152,285
Operating income	125,649	1,706	127,355
Income before income taxes	119,594	1,706	121,300
Income tax expense	10,916	644	11,560
Net income	108,678	1,062	109,740
Net income attributable to noncontrolling interests, net of tax	(17,615)	(171)	(17,786)
Net income attributable to TDS shareholders	91,063	891	91,954
Net income available to common shareholders	91,051	891	91,942
Basic earnings per share attributable to TDS shareholders	0.88	(0.03)	0.85
Diluted earnings per share attributable to TDS shareholders	0.87	(0.03)	0.84

Consolidated Statement of Operations — Six Months Ended June 30, 2011

(Dollars in thousands except per share amounts)	**As previously reported (1)**	**Adjustment (2)**	**Revised**
Depreciation, amortization and accretion	$ 387,269	$ (3,411)	$ 383,858
Total operating expenses	2,325,504	(3,411)	2,322,093
Operating income	212,817	3,411	216,228
Interest expense	(73,516)	1,590	(71,926)
Total investment and other income (expense)	(12,062)	1,590	(10,472)
Income before income taxes	200,755	5,001	205,756
Income tax expense	39,833	1,886	41,719
Net income	160,922	3,115	164,037
Net income attributable to noncontrolling interests, net of tax	(28,237)	(342)	(28,579)

Net income attributable to TDS shareholders	132,685	2,773	135,458
Net income available to common shareholders	132,660	2,773	135,433
Basic earnings per share attributable to TDS shareholders	1.28	(0.03)	1.25
Diluted earnings per share attributable to TDS shareholders	1.27	(0.04)	1.23

Consolidated Statement of Cash Flows — Six Months Ended June 30, 2011

(Dollars in thousands)	**As previously reported (1)**	**Adjustment**	**Revised**
Net income	$ 160,922	$ 3,115	$ 164,037
Depreciation, amortization and accretion	387,269	(3,411)	383,858
Change in Accounts payable	(448)	25,126	24,678
Change in Accrued taxes	(2,345)	1,886	(459)
Change in Accrued interest	2,945	(1,590)	1,355
Change in Other assets and liabilities	(89,713)	(578)	(90,291)
Cash flows from operating activities	537,663	24,548	562,211
Cash used for additions to property, plant and equipment	(338,711)	(12,145)	(350,856)
Cash flows from investing activities	(219,664)	(12,145)	(231,809)
Net increase (decrease) in cash and cash equivalents	216,302	12,403	228,705

(1) In Quarterly Report on Form 10-Q for the period ended June 30, 2011, filed on August 8, 2011.

(2) Earnings per share amounts also include adjustments due to the impact of increased shares outstanding as a result of the Share Consolidation Amendment approved by shareholders on January 13, 2012.

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3. Fair Value Measurements

As of June 30, 2012 and December 31, 2011, 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.

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.

	Level within the Fair Value	June 30, 2012		December 31, 2011	
	Hierarchy	Book Value	Fair Value	Book Value	Fair Value
(Dollars in thousands)					
Cash and cash equivalents	1	$ 613,764	$ 613,764	$ 563,275	$ 563,275
Short-term investments (1)(2)					
Certificates of deposit	1	—	—	27,444	27,444
Government-backed securities (3)	1	150,921	150,921	218,829	218,829
Long-term investments (1)(4)					
Government-backed securities (3)	1	55,468	55,468	45,138	45,310
Long-term debt (5)					
Publicly traded	1	983,250	1,048,431	983,250	1,043,549
Non-public	2	542,301	549,233	542,398	543,309

(1) Designated as held-to-maturity investments and recorded at amortized cost in the Consolidated Balance Sheet.

(2) Maturities are less than twelve months from the respective balance sheet dates.

(3) Includes U.S. treasuries and corporate notes guaranteed under the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program.

(4) At June 30, 2012, maturities range between 12 and 21 months.

(5) Excludes capital lease obligations and 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 Long-term debt, excluding capital lease obligations and the current portion of such Long-term debt, was estimated using market prices or through a discounted cash flow analysis. For its Publicly traded debt, which included the 7.0% Senior Notes, 6.875% Senior Notes and 6.625% Senior Notes, and U.S. Cellular's 6.95% Senior Notes, TDS estimated the fair value using market prices. TDS estimated the fair value of its Non-public debt through a discounted cash flow analysis using the interest rates or estimated yield to maturity for each borrowing, which ranged from 0.0% to 6.75%.

As of June 30, 2012 and December 31, 2011, 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.

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4. Income Taxes

TDS' overall effective tax rate on Income before income taxes for the three and six months ended June 30, 2012 was 39.0% and 33.8%, respectively, and for the three and six months ended June 30, 2011 was 9.5% and 20.3%, respectively.

The effective tax rate for the three and six months ended June 30, 2011 was lower than the rate for the three and six months ended June 30, 2012 primarily as a result of state law changes and the expiration of the statutes of limitation for certain tax years in 2011. The benefits from these changes, along with other discrete items, decreased income tax expense for the three and six months ended June 30, 2011 by $29.1 million and $30.8 million, respectively; absent these benefits, the effective tax rate for each period would have been higher by 28.2 and 17.4 percentage points, respectively.

TDS incurred a federal net operating loss in 2011 largely attributable to 100% bonus depreciation applicable to qualified capital expenditures. TDS carried back this federal net operating loss to prior tax years, and received a $59.9 million refund in 2012 for carrybacks to 2009 and 2010 tax years. TDS' future federal income tax liabilities associated with the benefits realized from bonus depreciation are accrued as a component of Net deferred income tax liability (noncurrent) in the Consolidated Balance Sheet. The bonus depreciation rate for federal income tax purposes is 50% for 2012 and will expire at the end of the year. TDS expects federal income tax payments to substantially increase beginning in 2012 and remain at a higher level for several years as the amount of TDS' federal tax depreciation deduction substantially decreases.

5. 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.

On January 13, 2012, TDS shareholders approved a Share Consolidation Amendment to the Restated Certificate of Incorporation of TDS whereby (a) each Special Common Share was reclassified as a Common Share on a one-for-one basis, (b) each Common Share was reclassified as 1.087 Common Shares, and (c) each Series A Common Share was reclassified as 1.087 Series A Common Shares. The weighted average number of shares used in basic and diluted earnings per share as of the beginning of all periods presented, have been retroactively restated to reflect the impact of the increased shares outstanding as a result of the Share Consolidation.

The amounts used in computing earnings per share and the effects of potentially dilutive securities on the weighted average number of Common and Series A Common Shares are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
(Dollars and shares in thousands, except per share amounts)				
Basic earnings per share attributable to TDS shareholders:				
Net income available to common shareholders of TDS used in basic earnings per share	$ 42,325	$ 91,942	$ 94,566	$ 135,433
Adjustments to compute diluted earnings:				
Noncontrolling interest (1)	(185)	(347)	(499)	(581)
Preferred dividend (2)	12	12	25	25
Net income attributable to common shareholders of TDS used in diluted earnings per share	$ 42,152	$ 91,607	$ 94,092	$ 134,877
Weighted average number of shares used in basic earnings per share:				
Common Shares	101,467	101,338	101,567	101,597
Series A Common Shares	7,265	7,085	7,126	7,081
Total	108,732	108,423	108,693	108,678
Effects of dilutive securities:				
Stock options	2	448	4	457
Restricted stock units	223	207	202	195
Preferred shares	65	55	65	55
	109,022	109,133	108,964	109,385

Weighted average number of shares used in diluted earnings per share								
Basic earnings per share attributable to TDS shareholders	$	0.39	$	0.85	$	0.87	$	1.25
Diluted earnings per share attributable to TDS shareholders	$	0.39	$	0.84	$	0.86	$	1.23

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(1) The noncontrolling income adjustment reflects the additional noncontrolling share of U.S. Cellular's income computed as if all of U.S. Cellular's dilutive securities were outstanding.

(2) The preferred dividend adjustment reflects the dividend reduction related to preferred securities that were dilutive, and therefore treated as if converted for common shares.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
(Shares in thousands)				
Stock options	7,993	3,395	7,568	3,175
Restricted stock units	169	127	85	64
Preferred shares	—	—	—	—

6. Acquisitions, Divestitures and Exchanges

TDS assesses business interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on investments. As part of this strategy, TDS reviews attractive opportunities to acquire additional wireless operating markets and wireless spectrum; and telecommunications companies, HMS businesses 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.

On June 11, 2012, TDS paid $45.0 million in cash, plus $1.1 million preliminary working capital adjustments, 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 TDS HMS portfolio of products. Vital is included in the TDS Telecom HMS segment for reporting purposes.

In March 2012, U.S. Cellular sold the majority of the assets and liabilities of a wireless market for $49.8 million in cash, net of working capital adjustments. In connection with the sale, a $4.2 million gain was recorded in Loss on asset disposals, net in the Consolidated Statement of Operations for the six months ended June 30, 2012. At December 31, 2011, assets and liabilities of $49.6 million and $1.1 million, respectively, related to this wireless market were classified in the Consolidated Balance Sheet as “held for sale.”

On June 19, 2012, U.S. Cellular entered into an agreement to acquire seven 700 MHz licenses covering portions of Illinois, Michigan, Minnesota, Missouri, Nebraska, Oregon, Washington and Wisconsin for $57.7 million. The acquisition requires approval from the Federal Communications Commission (“FCC”) and, if approved, is expected to close in the fourth quarter of 2012.

On April 17, 2012, U.S. Cellular entered into an agreement to acquire four 700 MHz licenses covering portions of Nebraska, Iowa, Missouri, Kansas and Oklahoma for $34.0 million. The acquisition requires approval from the FCC and, if approved, is expected to close in the third quarter of 2012.

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

TDS' acquisitions during the six months ended June 30, 2012 and 2011 and the allocation of the purchase price for these acquisitions were as follows:

			Allocation of Purchase Price		
(Dollars in thousands)	Purchase price (1)	Goodwill (2)	Licenses	Intangible assets subject to amortization (3)	Net tangible assets/ (liabilities)
2012					
U.S. Cellular licenses	$ 12,647	$ —	$ 12,647	$ —	$ —
TDS Telecom HMS business	46,126	20,364	—	20,300	5,462
Total	$ 58,773	$ 20,364	$ 12,647	$ 20,300	$ 5,462
2011					
U.S. Cellular licenses	$ 2,800	$ —	$ 2,800	$ —	$ —
U.S. Cellular business	24,572	—	15,592	2,252	6,728
Total	$ 27,372	$ —	$ 18,392	$ 2,252	$ 6,728

(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 was amortizable for income tax purposes.

(3) The weighted average amortization period for Intangible assets subject to amortization acquired was 8.1 years in 2012.

7. Intangible Assets

Changes in TDS' Licenses and Goodwill for the six months ended June 30, 2012 and 2011 are presented below.

Licenses

(Dollars in thousands)	U.S. Cellular (1)	TDS Telecom	Non-Reportable Segment (2)	Total
Balance December 31, 2011	$ 1,475,994	$ 2,800	$ 15,220	$ 1,494,014
Acquisitions	12,647	—	—	12,647
Other	786	—	—	786
Balance June 30, 2012	$ 1,489,427	$ 2,800	$ 15,220	$ 1,507,447
Balance December 31, 2010	$ 1,457,326	$ 2,800	$ —	$ 1,460,126
Acquisitions	2,800	—	—	2,800
Balance June 30, 2011	$ 1,460,126	$ 2,800	$ —	$ 1,462,926

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Goodwill

(Dollars in thousands)	U.S. Cellular (1)	TDS Telecom (3)	Non-Reportable Segment (2)	Total
Assigned value at time of acquisition	$ 622,681	$ 533,419	$ 4,317	$ 1,160,417
Accumulated impairment losses in prior periods	(333,900)	(29,440)	—	(363,340)
Balance December 31, 2011	288,781	503,979	4,317	797,077
Acquisitions	—	20,364	—	20,364
Impairment	—	—	(515)	(515)
Other	—	(258)	—	(258)
Balance June 30, 2012	$ 288,781	$ 524,085	$ 3,802	$ 816,668
Assigned value at time of acquisition	$ 622,681	$ 465,312	$ 3,802	$ 1,091,795
Accumulated impairment losses in prior periods	(333,900)	(29,440)	—	(363,340)
Balance December 31, 2010	288,781	435,872	3,802	728,455
Acquisitions	—	—	—	—
Balance June 30, 2011	$ 288,781	$ 435,872	$ 3,802	$ 728,455

(1) Prior to January 1, 2009, 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, as required by GAAP in effect at that time. Consequently, U.S. Cellular's Licenses and Goodwill on a stand-alone basis do not match the TDS consolidated Licenses and Goodwill related to U.S. Cellular.

(2) "Non-Reportable Segment" consists of amounts related to Suttle-Straus and, as of September 23, 2011, Airadigm. 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.

(3) The entire Goodwill balance of $29.4 million at the TDS Telecom CLEC business segment was impaired in 2004. The remaining Goodwill balance at TDS Telecom is attributed to the ILEC and HMS business segments.

8. Investments in Unconsolidated Entities

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

Equity in earnings of unconsolidated entities totaled $25.4 million and $22.6 million in the three months ended June 30, 2012 and 2011, respectively, and $48.8 million and $42.0 million in the six months ended June 30, 2012 and 2011, respectively; of those amounts, TDS' investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed $19.2 million and $14.1 million in the three months ended June 30, 2012 and 2011, respectively, and $36.3 million and $27.1 million in the six months ended June 30, 2012 and 2011, respectively. TDS held a 5.5% ownership interest in the LA Partnership during these periods.

The following table, which is based on information provided in part by third parties, summarizes the combined results of operations of TDS' equity method investments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
(Dollars in thousands)				
Revenues	$ 1,426,077	$ 1,360,803	$ 2,863,085	$ 2,689,860
Operating expenses	1,019,669	1,039,231	2,096,420	2,075,476
Operating income	406,408	321,572	766,665	614,384
Other income (expense), net	989	997	1,639	(838)
Net income	$ 407,397	$ 322,569	$ 768,304	$ 613,546

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9. Commitments, Contingencies and Other Liabilities

Agreements

As previously disclosed, on August 17, 2010, U.S. Cellular and Amdocs Software Systems Limited (“Amdocs”) entered into a Software License and Maintenance Agreement (“SLMA”) and a Master Service Agreement (“MSA”) (collectively, the “Amdocs Agreements”) to develop a Billing and Operational Support System (“B/OSS”). Pursuant to an updated Statement of Work dated June 29, 2012, the implementation of B/OSS is expected to take until 2013 to complete and payments to Amdocs are estimated to be approximately $148.5 million (subject to certain potential adjustments). The $148.5 million will be paid in installments through the second half of 2013. As of June 30, 2012, $67.4 million had been paid to Amdocs.

Indemnifications

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

Legal Proceedings

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

TDS has accrued $2.1 million and $1.9 million with respect to legal proceedings and unasserted claims as of June 30, 2012 and December 31, 2011, 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.

Subpoena

On November 1, 2011, TDS received a subpoena from the FCC's Office of Inspector General requesting information regarding receipt of Federal Universal Service Fund support relating to TDS and its affiliates, which includes U.S. Cellular. TDS has provided the information requested and has not received any further communications from the FCC regarding this matter after providing such information. TDS intends to fully cooperate with any further requests for information. TDS cannot predict any action that may be taken as a result of the request.

10. Variable Interest Entities (VIEs)

Consolidated VIEs

As of June 30, 2012, TDS holds a variable interest in and consolidates the following VIEs under GAAP:

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

The power to direct the activities of Aquinas Wireless, King Street Wireless, Barat Wireless and Carroll Wireless that most significantly impact their economic performance is shared. Specifically, the general partner of each 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.

TDS' capital contributions and advances made to these VIEs totaled $5.0 million and $6.8 million in the six months ended June 30, 2012 and 2011, respectively.

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From time to time, the FCC conducts auctions through which additional spectrum is made available for the provision of wireless services. U.S. Cellular, TDS' subsidiary, participated in spectrum auctions indirectly through its interests in Aquinas Wireless, King Street Wireless, Barat Wireless and Carroll Wireless, collectively, the "limited partnerships." Each limited partnership participated in and was awarded spectrum licenses in one of four separate spectrum auctions (FCC Auctions 78, 73, 66 and 58). Each limited partnership qualified as a "designated entity" and thereby was eligible for bidding credits with respect to 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.

TDS has a variable interest in Airadigm as a result of a secured loan to Airadigm, a contractual promise to fund a portion of Airadigm's obligations, and the equity interest it holds in Airadigm. TDS has the power to direct the activities that most significantly impact Airadigm's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to Airadigm, indicating that TDS is the primary beneficiary of Airadigm in accordance with GAAP. In addition, TDS has a majority voting interest in Airadigm. Accordingly, Airadigm is consolidated.

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

		June 30, 2012	**December 31, 2011**
(Dollars in thousands)			
Assets			
	Cash and cash equivalents	$ 9,395	$ 13,299
	Other current assets	3,807	3,719
	Intangible assets	504,071	501,829
	Property, plant and equipment, net	29,762	27,642
	Other assets and deferred charges	4,296	3,612
	Total assets	$ 551,331	$ 550,101
Liabilities			
	Current liabilities	$ 6,884	$ 5,944
	Deferred liabilities and credits	5,481	5,481
	Total liabilities	$ 12,365	$ 11,425

Other Related Matters

TDS may agree to make additional capital contributions and/or advances to the VIEs discussed above and/or to their general partners to provide additional funding for the development of licenses granted in the 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.

Aquinas Wireless, King Street Wireless, Barat Wireless and Carroll 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. Airadigm is a Wisconsin-based wireless service provider. As such, these entities have risks similar to the business risks described in the "Risk Factors" in TDS' Form 10-K for the year ended December 31, 2011.

U.S. Cellular began offering fourth generation Long-term Evolution ("4G LTE") service in certain cities within its service areas during the first quarter of 2012 and has plans to expand the deployment of 4G LTE to cover over 50 percent of customers by the end of 2012. U.S. Cellular currently provides 4G LTE service in conjunction with King Street Wireless. Aquinas Wireless, Barat Wireless and Carroll Wireless are still in the process of developing long-term business plans.

On May 21, 2012, U.S. Cellular entered into an agreement to acquire 100% of the ownership interest in Barat Wireless, Inc., the general partner of Barat Wireless L.P., for an immaterial amount. The acquisition requires approval from the FCC and, if approved, is expected to close in the third quarter of 2012. Following the closing, Barat Wireless L.P. and Barat Wireless, Inc. will cease to be VIEs but will continue to be consolidated.

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11. Common Stockholder's Equity

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 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 all periods presented in this Form 10-Q have been retroactively restated to reflect the impact of the increased shares outstanding.

TDS' Consolidated Balance Sheet as of December 31, 2011 has also been retroactively adjusted to reflect the incremental shares issued to Common and Series A shareholders based on the closing price of TDS Common Shares as of December 31, 2011. As a result of the reclassification, an increase in Common Shares, Series A Common Shares and Capital in excess of par was offset by a corresponding decrease in Retained earnings with no change to the overall amount of shareholders' equity.

TDS and U.S. Cellular Share Repurchases

On November 19, 2009, the Board of Directors of TDS authorized a $250 million stock repurchase program for purchase of both TDS Common and Special Common Shares from time to time pursuant to open market purchases, block transactions, private purchases or otherwise, depending on market conditions. This authorization will expire on November 19, 2012.

Following the fourth quarter of 2011, Special Common Shares ceased to be authorized, issued and outstanding as a result of the Share Consolidation Amendment that became effective on January 24, 2012. As a result, the foregoing share repurchase authorization no longer applies to Special Common Shares, but continues to apply to Common Shares until its expiration date.

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

Share repurchases made under these authorizations were as follows:

Six Months Ended June 30,		Number of Shares	Average Cost Per Share	Amount
(Dollars and shares in thousands, except cost per share)				
2012				
	U.S. Cellular Common Shares	— $	— $	—
	TDS Common Shares	—	—	—
2011				
	U.S. Cellular Common Shares	1,276 $	48.83 $	62,308
	TDS Common Shares	—	—	—
	TDS Special Common Shares	748	28.73	21,500

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12. Noncontrolling Interests

The following schedule discloses the effects of Net income attributable to TDS shareholders and changes in TDS' ownership interest in U.S. Cellular on TDS' equity for the six months ended June 30, 2012 and 2011:

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
(Dollars in thousands)		
Net income attributable to TDS shareholders	$ 94,591	$ 135,458
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	(8,318)	(8,405)
Change in TDS' Capital in excess of par value from U.S. Cellular's repurchase of U.S. Cellular shares	—	(7,734)
Net transfers (to) from noncontrolling interests	(8,318)	(16,139)
Change from net income attributable to TDS and transfers (to) from noncontrolling interests	$ 86,273	$ 119,319

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 settlement value or estimate of cash that would be due and payable to settle these noncontrolling interests, assuming an orderly liquidation of the finite-lived consolidated partnerships and LLCs on June 30, 2012, net of estimated liquidation costs, is $150.2 million. This amount excludes redemption amounts recorded in Noncontrolling interests with redemption features in the Consolidated Balance Sheet. The estimate of settlement value was based on certain factors and assumptions which are subjective in nature. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount. TDS currently has no plans or intentions relating to the liquidation of any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the mandatorily redeemable noncontrolling interests in finite-lived consolidated partnerships and LLCs at June 30, 2012 was $59.8 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 primarily due 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.

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13. Business Segment Information

Financial data for TDS' business segments for the three and six month periods ended, or as of June 30, 2012 and 2011, is as follows. TDS Telecom's incumbent local exchange carriers are designated as "ILEC" in the table, its competitive local exchange carrier is designated as "CLEC" and its Hosted and Managed Services operations are designated as "HMS." During the quarter ended March 31, 2012, TDS reevaluated and changed its reportable business segments. Periods presented for comparative purposes have been re-presented to conform to the revised presentation. See Note 1 — Basis of Presentation for additional information.

		TDS Telecom							
Three Months Ended or as of June 30, 2012	**U.S. Cellular**	**ILEC**	**CLEC**	**HMS**	**TDS Telecom Eliminations**	**TDS Telecom Total**	**Non-Reportable Segment (1)**	**Other Reconciling Items (2)**	**Total**
(Dollars in thousands)									
Operating revenues	$ 1,104,400	$ 144,052	$ 44,200	$ 22,876	$ (2,609)	$ 208,519	$ 15,245	$ (4,995)	$ 1,323,169
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	434,927	47,180	22,702	15,090	(2,196)	82,776	10,533	(566)	527,670
Selling, general and administrative expense	435,053	43,216	16,769	6,635	(413)	66,207	4,222	(3,078)	502,404
Adjusted OIBDA (3)	234,420	53,656	4,729	1,151	—	59,536	490	(1,351)	293,095
Depreciation, amortization and accretion expense	147,555	37,834	5,466	4,645	—	47,945	1,569	1,440	198,509
	—	—	—	—	—	—	515	—	515

Loss on impairment of intangible assets									
Loss on asset disposals, net	2,702	136	72	98	—	306	(10)	(3)	2,995
Operating income (loss)	84,163	15,686	(809)	(3,592)	—	11,285	(1,584)	(2,788)	91,076
Total assets	6,425,252	1,269,975	112,766	362,994	—	1,745,735	66,067	46,677	8,283,731
Capital expenditures	$ 183,191	$ 32,492	$ 4,899	$ 5,550	$ —	$ 42,941	$ 219	$ (2,366)	$ 223,985

Three Months Ended or as of June 30, 2011 (Dollars in thousands)	**U.S. Cellular**	**TDS Telecom ILEC**	**CLEC**	**HMS**	**TDS Telecom Eliminations**	**TDS Telecom Total**	**Non-Reportable Segment (1)**	**Other Reconciling Items (2)**	**Total**
Operating revenues	$ 1,076,182	$ 149,381	$ 45,596	$ 6,625	$ (2,706)	$ 198,896	$ 9,530	$ (4,968)	$ 1,279,640
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	398,634	47,646	23,029	2,193	(2,279)	70,589	7,290	(395)	476,118
Selling, general and administrative expense	423,953	40,076	16,087	2,521	(427)	58,257	1,675	(4,001)	479,884
Adjusted OIBDA (3)	253,595	61,659	6,480	1,911	—	70,050	565	(572)	323,638
Depreciation, amortization and accretion expense	146,577	36,116	5,439	2,288	—	43,843	475	2,150	193,045
Loss on impairment of intangible assets	—	—	—	—	—	—	—	—	—
Loss on asset disposals, net	2,922	245	47	25	—	317	(1)	—	3,238
Operating income (loss)	104,096	25,298	994	(402)	—	25,890	91	(2,722)	127,355

Total assets (4)	6,039,443	1,367,967	112,942	88,341	—	1,569,250	23,487	234,311	7,866,491
Capital expenditures	$ 162,107	$ 34,473	$ 6,218	$ 4,597	$ —	$ 45,288	$ 603	$ 3,250	$ 211,248

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Six Months Ended or as of June 30, 2012 (Dollars in thousands)	U.S. Cellular	TDS Telecom ILEC	TDS Telecom CLEC	TDS Telecom HMS	TDS Telecom Eliminations	TDS Telecom Total	Non-Reportable Segment (1)	Other Reconciling Items (2)	Total
Operating revenues	$ 2,196,521	$ 289,117	$ 88,244	$ 40,434	$ (5,201)	$ 412,594	$ 30,014	$ (10,169)	$ 2,628,960
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	855,127	96,348	45,266	24,864	(4,357)	162,121	20,738	(1,105)	1,036,881
Selling, general and administrative expense	877,297	84,730	33,029	13,367	(844)	130,282	8,408	(5,984)	1,010,003
Adjusted OIBDA (3)	464,097	108,039	9,949	2,203	—	120,191	868	(3,080)	582,076
Depreciation, amortization and accretion expense	294,240	75,612	10,955	8,821	—	95,388	3,099	3,216	395,943
Loss on impairment of intangible assets	—	—	—	—	—	—	515	—	515
Loss on asset disposals, net	492	202	125	99	—	426	(10)	(8)	900
Operating income (loss)	169,365	32,225	(1,131)	(6,717)	—	24,377	(2,736)	(6,288)	184,718
Total assets	6,425,252	1,269,975	112,766	362,994	—	1,745,735	66,067	46,677	8,283,731
Capital expenditures	$ 384,528	$ 60,018	$ 9,958	$ 8,641	$ —	$ 78,617	$ 435	$ (11,131)	$ 452,449

TDS Telecom

Six Months Ended or as of June 30, 2011	**U.S. Cellular**	**ILEC**	**CLEC**	**HMS**	**TDS Telecom Eliminations**	**TDS Telecom Total**	**Non-Reportable Segment (1)**	**Other Reconciling Items (2)**	**Total**
(Dollars in thousands)									
Operating revenues	$ 2,133,274	$ 298,955	$ 90,924	$ 12,867	$ (4,934)	$ 397,812	$ 18,145	$ (10,910)	$ 2,538,321
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	812,892	93,048	45,501	4,475	(4,070)	138,954	14,111	(798)	965,159
Selling, general and administrative expense	863,662	75,558	31,735	5,232	(864)	111,661	3,307	(9,935)	968,695
Adjusted OIBDA (3)	456,720	130,349	13,688	3,160	—	147,197	727	(177)	604,467
Depreciation, amortization and accretion expense	289,917	73,316	10,929	4,435	—	88,680	949	4,312	383,858
Loss on impairment of intangible assets	—	—	—	—	—	—	—	—	—
Loss on asset disposals, net	3,959	286	78	57	—	421	(1)	2	4,381
Operating income (loss)	162,844	56,747	2,681	(1,332)	—	58,096	(221)	(4,491)	216,228
Total assets (4)	6,039,443	1,367,967	112,942	88,341	—	1,569,250	23,487	234,311	7,866,491
Capital expenditures	$ 258,040	$ 54,990	$ 10,452	$ 6,134	$ —	$ 71,576	$ 2,493	$ 6,602	$ 338,711

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(1) Represents Suttle-Straus and, as of September 23, 2011, Airadigm.

(2) Consists of corporate operations and intercompany eliminations between U.S. Cellular, TDS Telecom and corporate operations.

(3) Adjusted OIBDA is defined as operating income excluding the effects of: depreciation, amortization and accretion (OIBDA); the net gain or loss on asset disposals and exchanges (if any); and the loss on impairment of assets (if any). Adjusted OIBDA is a segment measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. This amount may also be commonly referred to by management as operating cash flow. This amount should not be confused with Cash flows from operating activities, which is a component of the Consolidated Statement of Cash Flows. Adjusted OIBDA excludes the net gain or loss on asset disposals and exchanges and loss on impairment of assets (if any), in order to show operating results on a more comparable basis from period to period. TDS does not intend to imply that any of such amounts that are excluded are non-recurring, infrequent or unusual. Accordingly you should be aware that TDS may incur such amounts in the future.

(4) In preparing its financial statements for the nine months ended September 30, 2011, TDS discovered certain errors related to accounting for asset retirement obligations and asset retirement costs. These errors resulted in the overstatement of Total operating expenses, Property, plant and equipment, net and Other deferred liabilities and credits in the second quarter 2011 interim financial statements. The amounts herein have been revised to reflect the proper amounts. See Note 2 Revision of Prior Period Amounts for additional information.

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14. Supplemental Cash Flow Disclosures

Following are supplemental cash flow disclosures regarding transactions related to stock-based compensation awards:

TDS

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
(Dollars and shares in thousands)		
Common Shares withheld (1)	—	—
Special Common Shares withheld (1)	1	5
Aggregate value of Common Shares withheld	$ 5	$ —
Aggregate value of Special Common Shares withheld	33	167
Cash receipts upon exercise of stock options	$ —	$ 1,115
Cash disbursements for payment of taxes (2)	(39)	(60)
Net cash receipts (disbursements) from exercise of stock options and vesting of other stock awards	$ (39)	$ 1,055

U.S. Cellular

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
(Dollars and shares in thousands)		
Common Shares withheld (1)	78	120
Aggregate value of Common Shares withheld	$ 3,076	$ 5,940
Cash receipts upon exercise of stock options	$ 627	$ 4,764
Cash disbursements for payment of taxes (2)	(3,092)	(3,500)
Net cash receipts (disbursements) from exercise of stock options and vesting of other stock awards	$ (2,465)	$ 1,264

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(1) Such shares were withheld to cover the exercise price of stock options, if applicable, and required tax withholdings.

(2) 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.

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 $6.5 million in grants during the six months ended June 30, 2012. These funds reduced the carrying amount of the assets to which they relate. TDS Telecom had recorded $7.8 million and $3.7 million in grants receivable at June 30, 2012 and 2011, respectively. These amounts were included as a component of Accounts receivable, Other, in the Consolidated Balance Sheet.

TDS declared and paid dividends of $26.6 million or $0.2450 per share during the six months ended June 30, 2012. TDS declared and paid dividends of $24.3 million or $0.2350 per share during the six months ended June 30, 2011.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Telephone and Data Systems, Inc. ("TDS") is a diversified telecommunications company providing high-quality telecommunications services to approximately 5.8 million wireless customers and 1.0 million wireline customer connections at June 30, 2012. TDS conducts substantially all of its wireless operations through its 84% owned subsidiary, United States Cellular Corporation ("U.S. Cellular"). TDS provides wireline services through its incumbent local exchange carrier ("ILEC") and competitive local exchange carrier ("CLEC"), and provides Hosted and Managed Services ("HMS"), under its wholly-owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom"). TDS conducts printing and distribution services through its majority owned subsidiary, Suttle-Straus, Inc. and provides wireless services through its majority-owned subsidiary, Airadigm Communications, Inc. ("Airadigm"), a Wisconsin-based service provider. Airadigm operates independently from U.S. Cellular and at this time, there are no plans to combine the operations of these subsidiaries. Suttle-Straus and Airadigm's financial results were not significant to TDS' operations in the three or six months ended June 30, 2012.

The following discussion and analysis should be read in conjunction with TDS' interim consolidated financial statements and notes included in Item 1 above, and with the description of TDS' business, its audited consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the TDS Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2011.

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.

Historically, TDS has reported the following business segments: U.S. Cellular, ILEC (which included HMS operations), CLEC, and Non-Reportable Segment which includes Suttle-Straus and, as of September 23, 2011, Airadigm. TDS' Corporate operations and intercompany eliminations have been included in "Other Reconciling Items" for purposes of business segment disclosure. As a result of recent acquisitions and changes in TDS' strategy, operations, personnel and internal reporting, TDS reevaluated its reportable business segments in the quarter ended March 31, 2012. TDS' business segments reflected in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 are U.S. Cellular, CLEC, ILEC, HMS, and the Non-Reportable Segment. Periods presented for comparative purposes have been re-presented to conform to this revised presentation.

The following provides historical and forward-looking information and analysis about TDS' existing business segments and provides estimates for certain metrics with respect to 2012 for U.S. Cellular and TDS Telecom. In addition, TDS' consolidated operations include corporate operations, corporate investments and the Non-Reportable Segment and may in the future include other possible activities or businesses that are not included within the operating results or estimates of U.S. Cellular or TDS Telecom. Accordingly, the combined operating results and estimates for U.S. Cellular and TDS Telecom do not currently represent and in the future will not represent the only components of the consolidated operating results or estimates of TDS, which will continue to reflect such other operations, investments, segments, activities or businesses.

U.S. Cellular

U.S. Cellular provides wireless telecommunications services to approximately 5.8 million customers in five geographic market areas in 26 states. As of June 30, 2012, U.S. Cellular's average penetration rate in its consolidated operating markets was 12.3%. U.S. Cellular operates on a customer satisfaction strategy, striving to meet or exceed customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network.

Financial and operating highlights in the six months ended June 30, 2012 included the following:

- Total customers were 5,799,000 at June 30, 2012, including 5,542,000 retail customers.

- In May 2012, U.S. Cellular began offering U Prepaid, a no contract wireless service, in select Walmart stores within its service areas.

- In late March 2012, U.S. Cellular, in conjunction with King Street Wireless L.P., began offering fourth generation Long-term Evolution ("4G LTE") service; as of June 30, 2012, the 4G LTE network covered approximately 30 percent of U.S. Cellular's customers. 4G LTE enhances the wireless experience by significantly increasing both the speed and data capacity available compared to 3G networks. See Note 10 — Variable Interest Entities (VIEs) in the Notes to the Consolidated Financial Statements for additional information about King Street Wireless.

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- Retail customer net losses were 62,000 in 2012 compared to net losses of 89,000 in 2011. In the postpaid category, there was a net loss of 86,000 in 2012 compared to a net loss of 63,000 in 2011. Prepaid net additions were 24,000 in 2012 compared to net losses of 26,000 in 2011.

- Postpaid customers comprised approximately 94% of U.S. Cellular's retail customers as of June 30, 2012. The postpaid churn rate was 1.6% in 2012 compared to 1.4% in 2011.

- Postpaid customers on smartphone service plans increased to 37% as of June 30, 2012 compared to 23% as of June 30, 2011. In addition, smartphones represented 53% of all devices sold in 2012 compared to 41% in 2011.

- Service revenues of $2,053.6 million increased $66.4 million year-over-year, primarily due to continued growth in both data revenues from U.S. Cellular customers and inbound data roaming revenues.

- Additions to Property, plant and equipment totaled $384.5 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, deploy 4G LTE equipment, outfit new and remodel existing retail stores, develop new billing and other customer management related systems and platforms, and enhance existing office systems. Total cell sites in service increased 2% year-over-year to 7,932.

- U.S. Cellular continued its efforts on a number of multi-year initiatives including the development of a Billing and Operational Support System ("B/OSS") with a new point-of-sale system to consolidate billing on one platform; an Electronic Data Warehouse/Customer Relationship Management System to collect and analyze information more efficiently and thereby build and improve customer relationships; and a new Internet/Web platform to enable customers to complete a wide range of transactions and to manage their accounts online.

- In March 2012, U.S. Cellular sold the majority of the assets and liabilities of a wireless market for $49.8 million in cash net of working capital adjustments. In connection with the sale, a $4.2 million gain was recorded in (Gain) loss on asset disposals, net in the Consolidated Statement of Operations.

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

- The impact of the Belief Project on long-term profitability. Under the Belief Project, U.S. Cellular offers several innovative services, including no contract after the first contract; simplified national rate plans; a loyalty rewards program; overage protection, caps and forgiveness; and discounts for paperless billing and automatic payment. U.S. Cellular believes that offering these services will increase postpaid gross additions over the next several years and contribute to incremental growth in average revenue per customer and improvement in the postpaid churn rate. As of June 30, 2012, 3.6 million customers subscribe to Belief Plans;

- Continued uncertainty related to current economic conditions and their impact on customer purchasing and payment behaviors;

- Relative ability to attract and retain customers, including the ability to reverse recent customer net losses, in a competitive marketplace in a cost effective manner;

- Effects of industry competition on service and equipment pricing and roaming revenues as well as the impacts associated with the expanding presence of carriers and other retailers offering low-priced, unlimited prepaid service;

- Expanded distribution of products and services, such as U Prepaid, in national retailers outside of company-controlled retail distribution points;

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

- A change in the nature and rate of growth in the wireless industry, requiring U.S. Cellular to grow revenues primarily from selling additional products and services to its existing customers, increasing the number of multi-device users among its existing customers, increasing data products and services and attracting wireless customers switching from other wireless carriers rather than by adding customers that are new to wireless service;

- 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;

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

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

- Uncertainty related to various rulemaking proceedings underway at the Federal Communications Commission ("FCC"), including uncertainty relating to the impacts on universal service funding, intercarrier compensation and other matters of the *Connect America Fund & Intercarrier Compensation Reform Order and Further Notice of Proposed Rulemaking* issued by the FCC on October 27, 2011;

- The FCC's adoption of mandatory 4G roaming rules which may be of assistance in the negotiation of data roaming agreements with other wireless operators in the future; and

- Exclusive arrangements between manufacturers of wireless devices and other carriers, or other economic or competitive factors, that restrict U.S. Cellular's access to devices desired by customers.

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

2012 U.S. Cellular Estimates

U.S. Cellular's estimates of full-year 2012 results are shown below. Such estimates represent U.S. Cellular's views as of the date of filing of TDS' Quarterly Report on Form 10-Q ("Form 10-Q") for the quarterly period ended June 30, 2012. Such forward looking statements should not be assumed to be current as of any future date. U.S. Cellular undertakes no duty to update such information whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from such estimated results.

The following is unchanged from guidance as disclosed in TDS' Quarterly Report on Form 10-Q for the period ended March 31, 2012.

		2012 Estimated Results (1)
Service revenues		$4,050-$4,150 million
Operating income (2)		$200-$300 million
Depreciation, amortization and accretion expenses, and net gain or loss on asset disposals and exchanges and impairment of assets (2)	Approx.	$600 million
Adjusted OIBDA (2)(3)		$800-$900 million
Capital expenditures	Approx.	$850 million

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(1) These estimates are based on U.S. Cellular's current plans, which include a multi-year deployment of 4G LTE technology which commenced in 2011. New developments or changing conditions (such as customer net growth, customer demand for data services or possible acquisitions, dispositions or exchanges) could affect U.S. Cellular's plans and, therefore, its 2012 estimated results.

(2) The 2012 Estimated Results do not include any estimate for unrecognized net gains or losses related to disposals and exchanges of assets or losses on impairments of assets (since such transactions and their effects are uncertain).

(3) Adjusted OIBDA is defined as operating income excluding the effects of depreciation, amortization and accretion (OIBDA): the net gain or loss on asset disposals and exchanges (if any); and the loss on impairment of assets (if any). This measure also may be commonly referred to by management as operating cash flow. This measure should not be confused with Cash flows from operating activities, which is a component of the Consolidated Statement of Cash Flows. Adjusted OIBDA excludes the net gain or loss on asset disposals and exchanges (if any) and loss on impairment of assets (if any) in order to show operating results on a more comparable basis from period to period. TDS does not intend to imply that any of such amounts that are excluded are non-recurring, infrequent or unusual and, accordingly, they may be incurred in the future. TDS believes this measure provides useful information to investors regarding TDS' financial condition and results of operations because it highlights certain key cash and non-cash items and their impacts on cash flows from operating activities.

U.S. Cellular management currently believes that the foregoing estimates represent a reasonable view of what is achievable considering actions that U.S. Cellular has taken and will be taking. However, the current general economic and competitive conditions in the markets served by U.S. Cellular have created a challenging environment that could continue to significantly impact actual results. U.S. Cellular expects to continue its focus on customer satisfaction by delivering a high quality network, attractively priced service plans, a broad line of wireless devices and other products, and outstanding customer service in its company-owned and agent retail stores and customer care centers. U.S. Cellular believes that future growth in its revenues will result primarily from selling additional products and services, including data products and services, to its existing customers, increasing the number of multi-device users among its existing customers, and attracting wireless users switching from other wireless carriers, rather than by adding users that are new to wireless service. U.S. Cellular is focusing on opportunities to increase revenues, pursuing cost reduction initiatives in various areas and implementing a number of initiatives to enable future growth. The initiatives are intended, among other things, to allow U.S. Cellular to accelerate its introduction of new products and services, better segment its customers for new services and retention, sell additional services such as data, expand its distribution channels, enhance its Internet sales and customer service capabilities, improve its prepaid products and services and reduce operational expenses over the long term.

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TDS Telecom

TDS Telecom seeks to be the preferred telecommunications solutions provider in its chosen markets serving both residential and commercial customers by developing and delivering high-quality products and services that meet or exceed our customers' needs and to outperform the competition by maintaining superior customer service. TDS Telecom provides voice, high-speed data, and video services to residential customers through value-added bundling of products. The commercial focus is to provide advanced IP-based voice and data services to small to medium sized businesses. In addition, TDS Telecom seeks to grow through strategic acquisitions, as demonstrated by recent HMS acquisitions which provide colocation, dedicated hosting, hosted application management, cloud computing services and installation, and management of Information Technology ("IT") infrastructure hardware solutions. TDS Telecom's strategy encompasses many components, including:

- Delivering superior customer service;
- Developing a product and service portfolio targeted to our chosen customers;
- Investing in networks and deploying advanced technologies;
- Advocating with respect to state and federal regulations for positions that support its ability to provide advanced telecommunications services to its customers; and
- Exploring transactions to acquire or divest properties that would result in strengthening its operations.

TDS Telecom is faced with significant challenges, including growing competition from wireless providers, wireline providers (other CLECs and cable providers) and other HMS providers, changes in regulation, technologies such as Voice over Internet Protocol ("VoIP") and uncertainty in the economy. These challenges could have a material adverse effect on the financial condition, results of operations and cash flows of TDS Telecom in the future.

TDS Telecom's financial results for the six months ended June 30, 2012 included the following:

- Operating revenues increased $14.8 million or 4% to $412.6 million in 2012. The increase was primarily due to acquisitions of two HMS companies, partially offset by a decrease in revenues due to declines in ILEC and CLEC connections and a decline in revenue received from regulatory recovery mechanisms.

- Operating expenses increased $48.5 million or 14% to $388.2 million in 2012 primarily due to operating costs associated with the acquisitions coupled with the impacts of discrete expense reductions recorded in 2011 including insurance proceeds, the refund of certain prior year regulatory contributions and the settlement of a legal dispute.

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

- Continued uncertainty related to current economic conditions and the challenging business environment;

- Continued increases in competition from wireless and other wireline providers, cable providers, and technologies such as VoIP, DOCSIS 3.0 offered by cable providers, and third-generation (“3G”) and fourth-generation (“4G”) mobile technology;

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

- Continued declines in physical access lines;

- Continued focus on customer retention programs, including discounting for “triple-play” bundles including voice, DSL and Internet Protocol television (“IPTV”) or satellite TV;

- The effects of expansion of IPTV to additional markets in 2012; TDS Telecom currently expects to provide service to 10 IPTV markets in 2012.

- Continued growth in hosted and managed services;

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

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

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

- Potential acquisitions by TDS Telecom, including potential acquisitions of HMS businesses.

See "Results of Operations—TDS Telecom."

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2012 TDS Telecom Estimates

TDS Telecom's estimates of full-year 2012 results are shown below. Such estimates represent TDS Telecom's views as of the filing date of TDS' Form 10-Q for the quarter ended June 30, 2012. Such forward-looking statements should not be assumed to be current as of any future date. TDS undertakes no duty to update such information whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from these estimated results.

	Current Estimates (1)		Previous Estimates (2)	
TDS Telecom Operations:				
Operating revenues		$850 - $880 million		$810 - $840 million
Operating income		$50 - $70 million		$55 - $85 million
Depreciation, amortization and accretion expenses and net gain or loss on asset disposals and exchanges and loss on impairment of assets (3)	Approx.	$195 million	Approx.	$190 million
Adjusted OIBDA (4)		$245 - $265 million		$245 - $275 million
Capital expenditures		$170 - $190 million		$150 - $180 million

(1) These estimates are based on TDS Telecom's current plans, which include a multi-year deployment of IPTV that commenced in 2011. New developments or changing conditions (such as costs to deploy, agreements for content or franchises, or possible acquisitions, dispositions or exchanges) could affect TDS Telecom's plans and therefore, its 2012 estimated results.

(2) The 2012 Estimated Results as disclosed in TDS' Quarterly Report on Form 10-Q for the period ended March 31, 2012.

(3) The 2012 Estimated Results do not include any estimate for unrecognized net gains or losses related to disposals and exchanges of assets or losses on impairments of assets (since such transactions and their effects are uncertain).

(4) Adjusted OIBDA is defined as operating income excluding the effects of: depreciation, amortization and accretion (OIBDA); the net gain or loss on asset disposals and exchanges (if any); and the loss on impairment of assets (if any). This measure also may be commonly referred to by management as operating cash flow. This

measure should not be confused with Cash flows from operating activities, which is a component of the Consolidated Statement of Cash Flows. Adjusted OIBDA excludes the net gain or loss on asset disposals and exchanges (if any) and loss on impairment of assets (if any) in order to show operating results on a more comparable basis from period to period. TDS does not intend to imply that any of such amounts that are excluded are non-recurring, infrequent or unusual and, accordingly, they may be incurred in the future. TDS believes this measure provides useful information to investors regarding TDS' financial condition and results of operations because it highlights certain key cash and non-cash items and their impacts on cash flows from operating activities.

The foregoing estimates reflect the expectations of TDS Telecom's management considering its strategic plans and the current general economic conditions. In this challenging business environment, TDS Telecom will continue to focus on revenue growth through new service offerings as well as expense reduction through product and service cost improvements and process efficiencies. In order to achieve these objectives TDS Telecom has allocated capital expenditures for:

- Process and productivity initiatives;
- Increased network and product capabilities for broadband services;
- The expansion of IPTV to additional markets;
- Success-based spending to sustain managedIP growth;
- Development of HMS products and services; and,
- TDS Telecom will fund its share for projects approved under the American Recovery and Reinvestment Act of 2009 ("the Recovery Act") to increase broadband access in unserved areas. Under the Recovery Act, TDS Telecom will receive $105.1 million in federal grants and will provide $30.9 million (a portion of which is included in 2012 estimated capital expenditures) of its own funds to complete 44 projects. Under the terms of the grants, the projects must be completed by June 2015.

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Cash Flows and Investments

As of June 30, 2012, TDS and its subsidiaries had the following: Cash and cash equivalents totaling $613.8 million; Short-term investments in the form of U.S. treasury securities and corporate notes aggregating $150.9 million; Long-term investments in the form of U.S. treasury securities and corporate notes of $55.5 million; and borrowing capacity under their revolving credit facilities of $699.6 million. Also, during the six months ended June 30, 2012, TDS and its subsidiaries generated $506.9 million of Cash flows from operating activities. Management believes that cash on hand, expected future cash flows from operating activities and sources of external financing provide substantial liquidity and financial flexibility and are sufficient to permit TDS and its subsidiaries to finance their contractual obligations and anticipated capital and operating expenditures for the foreseeable future.

See “Financial Resources” and “Liquidity and Capital Resources” below for additional information related to cash flows, investments and revolving credit agreements.

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Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

RESULTS OF OPERATIONS — CONSOLIDATED

Six Months Ended June 30,	**2012**	**2011**	**Change**	**Percentage Change**
(Dollars in thousands, except per share amounts)				
Operating revenues				
U.S. Cellular	$ 2,196,521	$ 2,133,274	$ 63,247	3%
TDS Telecom	412,594	397,812	14,782	4%
All other (1)	19,845	7,235	12,610	>100%
Total operating revenues	2,628,960	2,538,321	90,639	4%
Operating expenses				
U.S. Cellular	2,027,156	1,970,430	56,726	3%
TDS Telecom	388,217	339,716	48,501	14%
All other (1)	28,869	11,947	16,922	>100%
Total operating expenses	2,444,242	2,322,093	122,149	5%
Operating income (loss)				
U.S. Cellular	169,365	162,844	6,521	4%
TDS Telecom	24,377	58,096	(33,719)	(58)%
All other (1)	(9,024)	(4,712)	(4,312)	(92)%
Total operating income	184,718	216,228	(31,510)	(15)%
Other income and (expenses)				
Equity in earnings of unconsolidated entities	48,781	41,978	6,803	16%
Interest and dividend income	4,535	4,717	(182)	(4)%
Gain (loss) on investment	(3,728)	13,373	(17,101)	>(100)%
Interest expense	(47,603)	(71,926)	24,323	34%
Other, net	(21)	1,386	(1,407)	>100%
Total other income (expenses)	1,964	(10,472)	12,436	>100%
Income before income taxes	186,682	205,756	(19,074)	(9)%
Income tax expense	63,177	41,719	21,458	51%
Net income	123,505	164,037	(40,532)	(25)%
Less: Net income attributable to noncontrolling interests, net of tax	(28,914)	(28,579)	(335)	(1)%
Net income attributable to TDS shareholders	94,591	135,458	(40,867)	(30)%

Preferred dividend requirement		(25)		(25)		—	—
Net income available to common shareholders	$	94,566	$	135,433	$	(40,867)	(30)%
Basic earnings per share attributable to TDS shareholders (2)	$	0.87	$	1.25	$	(0.38)	(30)%
Diluted earnings per share attributable to TDS shareholders (2)	$	0.86	$	1.23	$	(0.37)	(30)%

N/M – Not meaningful

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

(2) On January 13, 2012, TDS shareholders approved a Share Consolidation Amendment to the Restated Certificate of Incorporation of TDS. 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 all periods presented, have been retroactively restated to reflect the impact of the increased shares outstanding as a result of the Share Consolidation Amendment. See Note11 — Common Stockholder’s Equity in the Notes to Consolidated Financial Statements for additional information.

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Operating revenues and expenses

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

Equity in earnings of unconsolidated entities

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.

TDS’ investment in the Los Angeles SMSA Limited Partnership (“LA Partnership”) contributed $36.3 million and $27.1 million to Equity in earnings of unconsolidated entities in 2012 and 2011, respectively. The remaining change resulted from decreases in net income of other equity interests.

Gain (loss) on investment

Gain (loss) on investment includes, in 2012, 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, and, in 2011, a $13.4 million gain from the adjustment of a pre-existing noncontrolling interest for which U.S. Cellular purchased the remaining interest in May 2011.

Interest expense

The decrease in interest expense was due primarily to the write-off of unamortized debt issuance costs in 2011 of $15.4 million related to TDS’ and U.S. Cellular’s senior notes redeemed in May and June 2011, respectively, as well as the result of lower interest rates on outstanding debt and increases in capitalized interest on projects related to network and system enhancements in 2012.

Income tax expense

See Note 4 — Income Taxes in the Notes to Consolidated Financial Statements for a discussion of the change in Income tax expense and the overall effective tax rate on Income before income taxes.

Net income attributable to noncontrolling interests, net of tax

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

	Six Months Ended June 30,			
		2012		2011
(Dollars in thousands)				
Net income attributable to noncontrolling interests, net of tax				
U.S. Cellular noncontrolling public shareholders'	$	18,851	$	18,365
Noncontrolling shareholders' or partners'		10,063		10,214
	$	28,914	$	28,579

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RESULTS OF OPERATIONS — U.S. CELLULAR

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

Following is a table of summarized operating data for U.S. Cellular's consolidated operations.

As of June 30, (1)	**2012**	**2011**
Customers		
Customers on postpaid service plans in which the end user is a customer of U.S. Cellular ("postpaid customers")	5,213,000	5,356,000
Customers on prepaid service plans in which the end user is a customer of U.S. Cellular ("prepaid customers")	329,000	288,000
Total retail customers	5,542,000	5,644,000
End user customers acquired through U.S. Cellular's agreements with third parties ("reseller customers")	257,000	324,000
Total customers	5,799,000	5,968,000