TELEPHONE & DATA SYSTEMS INC /DE/
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TELEPHONE AND DATA SYSTEMS, INC.

ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2012
Pursuant to SEC Rule 14a-3

The following audited financial statements and certain other financial information for the year ended December 31, 2012, represent Telephone and Data Systems' annual report to shareholders as required by the rules and regulations of the Securities and Exchange Commission ("SEC").

The following information was filed with the SEC on February 26, 2013 as Exhibit 13 to Telephone and Data Systems' Annual Report on Form 10-K for the year ended December 31, 2012. Such information has not been updated or revised since the date it was originally filed with the SEC. Accordingly, you are encouraged to review such information together with any subsequent information that we have filed with the SEC and other publicly available information.

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Telephone and Data Systems, Inc. and Subsidiaries

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Telephone and Data Systems, Inc.

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

Telephone and Data Systems, Inc. ("TDS") is a diversified telecommunications company providing high-quality telecommunications services to approximately 5.8 million wireless customers and 1.0 million wireline customer connections at December 31, 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. ("Suttle-Straus") 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 for the year ended December 31, 2012.

The following discussion and analysis should be read in conjunction with TDS' audited consolidated financial statements and the description of TDS' business included in Item 1 of the TDS Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2012. The discussion and analysis contained herein refers to consolidated data and results of operations, unless otherwise noted.

OVERVIEW

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

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 and changed its reportable business segments in the quarter ended March 31, 2012. TDS' business segments reflected in this Annual Report on Form 10-K for the annual period ended December 31, 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.

U.S. Cellular

U.S. Cellular's consolidated operating markets cover approximately 5.8 million customers in five geographic market areas in 26 states. As of December 31, 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. U.S. Cellular's business development strategy is to obtain interests in and access to wireless licenses in certain spectrum bands in areas overlapping, adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas with strong spectrum positions. U.S. Cellular anticipates that grouping its operations into market areas will continue to provide it with certain economies in its capital and operating costs.

Financial and operating highlights in 2012 included the following:

- Total consolidated customers were 5,798,000 at December 31, 2012, including 5,557,000 retail customers (96% of total).

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In November 2012, U.S. Cellular entered into a Purchase and Sale Agreement with subsidiaries of Sprint Nextel Corporation. U.S. Cellular will transfer to Sprint certain rights and assets, and Sprint will assume certain liabilities, related to U.S. Cellular's Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets, in consideration for $480 million in cash at closing, subject to pro-rations of certain assets and liabilities. See "Divestiture Transaction" below for additional information.

In May 2012, U.S. Cellular began offering U Prepaid, a no-contract wireless service, in select Walmart stores within its service areas. U.S. Cellular began offering a postpaid option through Walmart in October 2012 and continues to explore new distribution options.

In 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 December 31, 2012, the 4G LTE network covered approximately 61% of U.S. Cellular's postpaid customers. 4G LTE enhances the wireless experience by significantly increasing both the speed and data capacity available compared to 3G networks.

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 sale of business and other exit costs, net in the Consolidated Statement of Operations.

U.S. Cellular continued its efforts on a number of multi-year initiatives including the development of a new Billing and Operational Support System ("B/OSS") which will include a new point-of-sale system and consolidate billing on one platform.

Retail customer net losses were 47,000 in 2012 compared to net losses of 125,000 in 2011. In the postpaid category, there were net losses of 165,000 in 2012, compared to net losses of 117,000 in 2011. Prepaid net additions were 118,000 in 2012 compared to net losses of 8,000 in 2011.

Postpaid customers comprised approximately 92% of U.S. Cellular's retail customers as of December 31, 2012. The postpaid churn rate was 1.7% in 2012 and 1.5% in 2011. The prepaid churn rate was 6.0% in 2012 and 6.6% in 2011.

Postpaid customers on smartphone service plans increased to 42% as of December 31, 2012 compared to 30% as of December 31, 2011. In addition, smartphones represented 56% of all devices sold in 2012 compared to 44% in 2011. LTE smartphones represented 40% of all smartphones sold in 2012.

Retail service revenues of $3,548.0 million increased $61.5 million year-over-year, due to an increase in average monthly service revenue per customer, partially offset by a decrease of 156,000 in the average number of customers. Total service revenues of $4,098.9 million increased $45.1 million year-over-year, primarily due to increases in data and prepaid revenues partially offset by the phase down of ETC support and the net loss of retail customers.

Additions to Property, plant and equipment totaled $836.7 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, deploy fourth generation Long-term Evolution ("4G LTE") equipment, outfit new and remodel existing retail stores, develop new billing and other customer management related systems and platforms, and enhance existing office systems. Total cell sites in service increased by 146, or 2%, year-over-year to 8,028.

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

Impacts of the Divestiture Transaction including, but not limited to, the ability to obtain regulatory approval, successfully complete the transaction and the actual financial impacts of such transaction;

Relative ability to attract and retain customers in a competitive marketplace in a cost effective manner;

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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 and postpaid plans, in third-party national retailers;

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;

The nature and rate of growth in the wireless industry, requiring U.S. Cellular to grow revenues primarily from selling additional products and services to its existing customers, increasing the number of multi-device users among its existing customers, increasing data products and services and attracting wireless customers switching from other wireless carriers.

Continued growth in revenues from data products and services and lower growth or declines in revenues from voice services;

Rapid growth in the demand for new data devices and services which may result in increased cost of equipment sold and other operating expenses and the need for additional investment in network capacity;

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

Further consolidation among carriers in the wireless industry, which could result in increased competition for customers and/or cause roaming revenues to decline;

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

Uncertainty related to various rulemaking proceedings underway at the Federal Communications Commission ("FCC");

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

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

Possible effects of industry litigation relating to patents, other intellectual property or otherwise, that may restrict U.S. Cellular's access to devices for sale to customers.

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

TDS Telecom

TDS Telecom seeks to be the preferred telecommunications solutions provider in its chosen markets for both residential and commercial customers by developing and delivering high-quality products that meet or exceed customers' needs and to outperform the competition by maintaining superior customer service. 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 planning, engineering, procurement, installation, sales and management of Information Technology ("IT") infrastructure hardware solutions. TDS Telecom's strategy encompasses many components, including:

Delivering superior customer service;

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- Developing a product portfolio targeted to TDS Telecom's 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;
- Increasing its presence in the IT infrastructure, application outsourcing, and solution provider markets through organic growth, expansion or acquisition; 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 and technologies such as VoIP. These challenges could have a material adverse effect on the financial condition, results of operations and cash flows of TDS Telecom in the future.

Financial and operating highlights in 2012 included the following:

- Operating revenues increased $39.1 million or 5% to $854.5 million in 2012. The increase was primarily due to $64.1 million from acquisitions of two HMS companies (one acquisition in each of 2011 and 2012), partially offset by a decline in revenue received from access charges to interexchange carriers and from regulatory recovery mechanisms and a decrease in revenues due to the decline in ILEC and CLEC connections.
- Operating expenses increased $97.0 million or 14% to $813.8 million in 2012 primarily due to $68.8 million in operating costs associated with acquisitions of two HMS companies, 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.
- Additions to Property, plant and equipment totaled $173.9 million including strategic investment in increased network capabilities for broadband services, HMS expansion, IPTV expansion, and software tools that improve management of the network and support sales and customer service processes.
- On February 25, 2013, TDS entered into an Asset Purchase Agreement with Baja Broadband, LLC ("Baja") to acquire substantially all of the assets of Baja for $267.5 million in cash, subject to a working capital adjustment. Baja is a cable company that passes approximately 212,000 households in markets in Colorado, New Mexico, Texas, and Utah and offers video, broadband and voice services. The transaction is subject to governmental regulatory approvals, compliance with the Hart-Scott-Rodino Act and other conditions. Subject to approvals, the transaction is expected to close in the third quarter of 2013.

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

- Continued increases in competition from wireless and other wireline providers, cable providers, and technologies such as VoIP, DOCSIS 3.0 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 that provide voice, DSL and IPTV or satellite video;

The expansion of IPTV into additional market areas in 2013;

Continued growth in hosted and managed services including the impacts resulting from the acquisition of OneNeck IT Services Corporation, a provider of hosted application management and managed services, in June 2011 and Vital Support Systems, LLC an Information Technology Solutions Provider, in June 2012;

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- Continued focus on cost-reduction initiatives through product cost improvement 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 relating to future funding from the USF, broadband requirements, intercarrier compensation and changes in access reform;
- Impacts of the Baja transaction, including, but not limited to, the ability to obtain regulatory approval, successfully complete the transaction, successfully integrate and operate the cable business of Baja, and the financial impacts of such transaction, including the effects on TDS' capital resources and liquidity as a result of the use of $267.5 million in cash for the purchase price; and
- Potential acquisitions or divestitures by TDS and/or TDS Telecom of other ILEC, CLEC, HMS, cable or other businesses.

See "Results of Operations TDS Telecom."

FCC Reform Order

On November 18, 2011, the FCC released a Report and Order and Further Notice of Proposed Rulemaking ("Reform Order") adopting reforms of its universal service and intercarrier compensation mechanisms, establishing a new, broadband-focused support mechanism, and proposing further rules to advance reform.

U.S. Cellular

The Reform Order substantially revises the current USF high cost program and intercarrier compensation regime. The current USF program, which supports voice services, is to be phased out over time and replaced with the Connect America Fund ("CAF"), a new Mobility Fund and a Remote Area Fund, which will collectively support broadband-capable networks. Mobile wireless carriers such as U.S. Cellular are eligible to receive funds in both the CAF and the Mobility Fund, although some areas that U.S. Cellular currently serves may be declared ineligible for support if they are already served, or are subject to certain rights of first refusal by incumbent carriers.

The terms and rules for participating in the CAF for wireless eligible telecommunications carriers ("ETC") have not been developed yet by the FCC. It is uncertain whether U.S. Cellular will obtain support through these replacement mechanisms to the current USF funding regime. If U.S. Cellular is successful in obtaining support, it will be required to meet certain regulatory conditions to obtain and retain the right to receive support including, for example, allowing other carriers to collocate on U.S. Cellular's towers, allowing voice and data roaming on U.S. Cellular's network, and submitting various reports and certifications to retain eligibility each year. It is possible that additional regulatory requirements will be imposed pursuant to the FCC's Further Notice of Proposed Rulemaking.

U.S. Cellular's current USF support is scheduled to be phased down. Support for 2012 (excluding certain adjustments) was frozen on January 1, 2012 using support for 2011 as a baseline and was reduced by 20% starting in July 2012. The reduction in USF support that U.S. Cellular otherwise would have received in 2012 is approximately $16 million. Support will be further reduced by 20% in July of each subsequent year; however, if the Phase II Mobility Fund is not operational by July 2014, the phase down will halt at that time and U.S. Cellular will receive 60% of its baseline support until the Phase II Mobility Fund is operational.

Multiple appeals and petitions for reconsideration have been filed with respect to the FCC Reform Order, but it has not been stayed.

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

On September 27, 2012, the FCC conducted a single round, sealed bid, reverse auction to award up to $300 million in one-time Mobility Fund Phase I support to successful bidders that commit to provide 3G, or better, wireless service in areas designated as unserved by the FCC. This auction was designated by the FCC as Auction 901. As announced on October 3, 2012, U.S. Cellular and several of its wholly-owned subsidiaries participated in Auction 901. U.S. Cellular and its subsidiaries were winning bidders in eligible areas within 10 states and will receive up to $40.1 million in support from the Mobility Fund. As part of the auction rules, winning bidders must complete network build-out projects to provide 3G or 4G service to these areas within two or three years, respectively, and must also make their networks available to other providers for roaming. Winning bidders will receive support funding primarily upon achievement of coverage milestones defined in the auction rules.

TDS Telecom

The Reform Order is intended to modernize the payment framework for intercarrier compensation from one which had carriers recovering their capital and operating costs, in part, from one another to one where carriers will recover their costs first from their end user subscribers and then, if certain criteria are met, through a new federal restructure mechanism. The Reform Order adopted a national framework for switched access rates that brings TDS Telecom's ILECs terminating intrastate and interstate switched access to parity by July 1, 2013, rates for wireless traffic to bill-and-keep by July 1, 2012, and confirmed that VoIP traffic can be billed at access rates. It also mandated the development of a new restructure mechanism effective July 1, 2012 that allows TDS Telecom's ILECs to recover any lost access revenue from these access rate reductions, after first implementing or imputing set rate increases to end user subscribers, and subject to an annual 5% phase down.

The Reform Order also intends to reform the federal USF program by shifting over time the existing high-cost portion of the fund from supporting the voice network to facilitating the development of a broadband network in high-cost areas. While the Reform Order puts off long-term USF reform for rate-of-return carriers like TDS Telecom, it did mandate specific changes to the support these carriers currently receive. Additionally, limits on operating expenses and capital investment levels were established and are being phased-in with the intention to reduce legacy high-cost support.

The Reform Order has been the subject of numerous Petitions for Reconsideration, which asked the FCC to reconsider portions of its decision, and it is also the subject of numerous judicial appeals. In addition, the Reform Order also included a Further Notice of Proposed Rulemaking which primarily addresses longer-term USF reform by seeking comments on a range of follow up proposals. The future proposed rulemaking is especially important to TDS Telecom, as numerous issues relevant to rate of return carriers, such as TDS Telecom, will be addressed in it. TDS Telecom cannot predict the outcome of future rulemaking, reconsideration and legal challenges and as a consequence, the impacts these may have on TDS Telecom's Wholesale revenues.

Cash Flows and Investments

See "Financial Resources" and "Liquidity and Capital Resources" below for information related to cash flows and investments.

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DIVESTITURE TRANSACTION

On November 6, 2012, U.S. Cellular entered into a Purchase and Sale Agreement with subsidiaries of Sprint Nextel Corporation ("Sprint"). The Purchase and Sale Agreement also contemplates certain other agreements, collectively referred to as the "Divestiture Transaction."

As more fully described below, the Purchase and Sale Agreement provides that U.S. Cellular will transfer to Sprint certain rights and assets (collectively, the "Subject Assets"), and Sprint will assume certain liabilities ("Subject Liabilities"), related to U.S. Cellular's Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets (the "Divestiture Markets"), in consideration for $480 million in cash at closing ("Purchase Price"), subject to pro-rations of certain assets and liabilities. U.S. Cellular will retain all other assets ("Retained Assets") and liabilities ("Retained Liabilities") related to the Divestiture Markets. U.S. Cellular is not transferring and will continue to operate and provide services in Peoria, Rockford and certain other areas in Illinois, and in Columbia, Joplin, Jefferson City and certain other areas in Missouri.

Management, the U.S. Cellular Board of Directors and the TDS Board of Directors considered various alternatives and approved this transaction as part of a decision to divest low-margin markets and focus U.S. Cellular's efforts and capital on its higher-margin markets. The transaction will better position U.S. Cellular to invest its resources in markets where it is more likely to succeed. U.S. Cellular's strategic priority is to drive growth and profitability in its stronger markets.

The Subject Assets include customers (the "Subject Customers") and most of U.S. Cellular's PCS licenses in the Divestiture Markets. U.S. Cellular will retain its direct and indirect ownership interests in other spectrum in the Divestiture Markets. The transaction does not affect spectrum licenses held by U.S. Cellular or by variable interest entities consolidated by U.S. Cellular, that are not currently used in the operations of the Divestiture Markets. The Subject Liabilities that will be assumed by Sprint include only (i) liabilities as of the closing relating to the Subject Customers and (ii) liabilities arising after the closing relating to the Subject Assets.

The Retained Assets include all assets other than the Subject Assets, including cash, accounts receivable, inventory, naming rights, real estate, 561 owned cell sites including towers, network equipment, stores, retail equipment, furniture and fixtures, and all other assets, including corporate and other facilities located in the Divestiture Markets. The Retained Liabilities include all liabilities other than the Subject Liabilities, including accounts payable, accrued expenses, liabilities to employees, taxes, and obligations under benefit plans, contracts, leases and asset retirement obligations.

The transaction is subject to FCC approval, compliance with the Hart-Scott-Rodino Act and other conditions. Subject to the satisfaction or (if permitted) waiver of all conditions, the transaction is expected to close in mid-2013.

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Selected pro forma information related to the Divestiture Transaction is as follows:

(Dollars in millions)	As Reported	Divestiture Markets(1)	Core Markets
As of or for the Year Ended December 31, 2012			
Postpaid customers(2)	5,134,000	463,000	4,671,000
Prepaid customers(2)	423,000	81,000	342,000
Reseller customers(2)	241,000	16,000	225,000
Total customers	5,798,000	560,000	5,238,000
Market penetration in consolidated operating markets(2)	12.3%	3.7%	16.4%
Postpaid churn rate(2)	1.67%	2.95%	1.53%
TDS Operating revenues	$ 5,345	$ 440	$ 4,905
U.S. Cellular Service revenues	$ 4,099	$ 427	$ 3,672
TDS Capital expenditures	$ 1,005	$ 68	$ 937
U.S. Cellular Capital expenditures	$ 837	$ 68	$ 769
For the year ended December 31, 2011			
TDS Operating revenues	$ 5,180	$ 474	$ 4,706
U.S. Cellular Service revenues	$ 4,054	$ 468	$ 3,586
TDS Capital expenditures	$ 987	$ 67	$ 920
U.S. Cellular Capital expenditures	$ 783	$ 67	$ 716
For the year ended December 31, 2010			
TDS Operating revenues	$ 4,987	$ 515	$ 4,472
U.S. Cellular Service revenues	$ 3,913	$ 513	$ 3,400
TDS Capital expenditures	$ 755	$ 68	$ 687
U.S. Cellular Capital expenditures	$ 583	$ 68	$ 515

(1) The As-Reported amounts of Operating revenues and Capital expenditures represent GAAP financial measures and the U.S. Cellular Service revenues and the Divestiture Markets and Core Markets amounts represent non-GAAP financial measures. TDS believes that the amounts under Divestiture Markets and Core Markets may be useful to investors and other users of its financial information in evaluating the pro forma amounts for the Core Markets.

(2) See "Results of Operations U.S. Cellular" for a further description of customers, market penetration and churn rate.

The Divestiture Transaction contemplates that five agreements will be entered into as of the closing: a Customer Transition Services Agreement, a Network Transition Services Agreement, a Spectrum Manager Lease Agreement, a Brand License Agreement, and an amendment to the Sprint/U.S. Cellular Intercarrier Roaming Agreement.

At closing, the Subject Customers will cease to be customers of U.S. Cellular and will become customers of Sprint. Pursuant to the Customer Transition Services Agreement, on and after closing, U.S. Cellular will provide customer service and billing to, and collect accounts receivable from, the Subject Customers on behalf of Sprint for a period of up to 24 months following the closing. Sprint will reimburse U.S. Cellular at an amount equal to U.S. Cellular's cost, including applicable overhead allocations, for providing such services and will provide notice to U.S. Cellular when to discontinue them.

Pursuant to the Network Transition Services Agreement, U.S. Cellular will retain and continue to operate the Retained Assets to provide network services to Sprint in the Divestiture Markets for a period of up to 24 months following the closing. Sprint will reimburse U.S. Cellular at an amount equal to U.S. Cellular's cost, including applicable overhead allocations, for providing such services and for actual cell site rent expenses during the transition period. Sprint will provide notice to U.S. Cellular as to how and when to decommission certain network assets.

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Sprint will reimburse U.S. Cellular up to $200 million (the "Sprint Cost Reimbursement") for network-related exit costs in the Divestiture Markets that U.S. Cellular expects to incur as a result of the transaction, including: (i) costs to decommission cell sites and mobile telephone switching office ("MTSO") sites in the Divestiture Markets, (ii) costs to terminate real property leases related to cell sites in the Divestiture Markets, (iii) costs to terminate certain network access arrangements, and (iv) costs for employee termination benefits that are paid to specified engineering employees in the Divestiture Markets.

The Spectrum Manager Lease Agreement provides that Sprint, as lessor, would lease the Subject Licenses to U.S. Cellular, as lessee, to provide U.S. Cellular with FCC authority to operate the network during the transition period. U.S. Cellular is not required to make any lease payments to Sprint under this agreement.

The Brand License Agreement provides that Sprint will have the rights to continue to use U.S. Cellular's trade-names, trademarks and service marks in the Divestiture Markets during the transition period. No additional payments are due by Sprint to U.S. Cellular under this agreement.

Sprint will not purchase or assume any of U.S. Cellular's retail locations, distribution points or agent relationships. The transaction ultimately will result in the closure of approximately 100 company-owned stores and the termination of related retail associates, along with the termination of agent and sub-agent relationships related to approximately 150 stores in these markets. U.S. Cellular also will cease to distribute the U Prepaid product in Walmart stores in these markets.

U.S. Cellular expects to incur costs associated with store closures and agent terminations in the Divestiture Markets, including: (i) costs to terminate leases for company-owned retail stores, (ii) costs for employee termination benefits that are paid to retail and support employees, and (iii) costs to terminate certain agent and sub-agent relationships. Sprint will not reimburse U.S. Cellular for costs associated with company-owned store closures and agent terminations.

Upon the completion of the transaction, U.S. Cellular expects to reduce its workforce by approximately 1,000 employees in these markets, primarily store employees, but also including engineering employees and support staff. Most of these employees will continue to work through the closing and some of the employees will continue to be retained through the completion of the transition services period.

Between the date of the Purchase and Sale Agreement and the closing, the operating results of the Divestiture Markets will continue to be presented in continuing operations. The financial impacts of the Divestiture Transaction are classified in the Consolidated Statement of Operations within Operating income. See Note 7 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information regarding (i) the amounts TDS expects to recognize in the Consolidated Statement of Operations between the date the Purchase and Sale Agreement was signed and the end of the transition services period and (ii) the actual amounts incurred during the year ended December 31, 2012 as a result of the transaction. The net impacts of the Divestiture Transaction resulted in a $44.5 million reduction in U.S. Cellular's Operating income in the quarter ended December 31, 2012.

As a result of the transaction, TDS reviewed the remaining goodwill and intangible assets in these reporting units and units of accounting for impairment in the fourth quarter of 2012 and concluded there was no impairment of Goodwill or Licenses. See Application of Critical Accounting Policies and Estimates, below, for additional information.

As noted above, the Purchase Price is $480 million, net of certain pro-rations, to be received upon the closing of the Purchase and Sale Agreement, and the Sprint Cost Reimbursement is up to $200 million. After the closing, U.S. Cellular intends to invest the Purchase Price in excess of non-reimbursed exit costs and income tax payments in temporary investments and these funds will be available for use for general corporate purposes. This will increase U.S. Cellular's liquidity and capital resources at that time, subject to the below cash expenditures and income taxes.

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As a result of the transaction, U.S. Cellular expects net cash flows of the following:

(Dollars in thousands)	Cash inflow (outflow)
Proceeds:	
Purchase price	$ 480,000
Reimbursement of transition and exit costs	150,000 - 200,000
Cash expenditures:	
Employee related costs including severance, retention and outplacement	(15,000) - (25,000)
Contract termination costs	(125,000) - (175,000)
Costs of decommissioning cell sites and MTSOs	(40,000) - (50,000)
Transaction costs	(3,000) - (5,000)
Income taxes	(130,000) - (150,000)

Net cash proceeds from the transaction are expected to be $275 million to $350 million. Such net cash proceeds will be realized over the period from the date of the signing of the Purchase and Sale Agreement on November 6, 2012, to the end of the transition services agreements. Net cash outflows related to the Divestiture Transaction for the quarter ended December 31, 2012 totaled $0.3 million.

Following the closing, TDS will no longer receive Operating revenues in the Divestiture Markets. However, following the closing, TDS will continue to incur Cost of services and products expenses, Selling, general and administrative expenses and Depreciation, amortization and accretion in the Divestiture Markets in order for U.S. Cellular to provide transition services to Sprint. Certain of these costs will be reimbursed by Sprint pursuant to the Customer Transition Service Agreement and the Network Transition Services Agreement described above.

2013 ESTIMATES

Estimates of full-year 2013 results for U.S. Cellular, TDS Telecom and TDS, are shown below. Such estimates represent management's view as of the date of filing of TDS' Form 10-K for the year ended December 31, 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 such estimated results.

TDS has changed the measures which it uses to present estimates of operating results. TDS now provides estimates for consolidated revenues and capital expenditures. In addition, TDS previously presented Adjusted OIBDA, defined as operating income excluding the effects of: depreciation, amortization and accretion (OIBDA); the loss on impairment of assets; and the net gain or loss on asset disposals and exchanges. TDS believes Adjusted income before income taxes, as defined below, is a measure which provides a more comprehensive and meaningful view of TDS' recurring results of operations.

	2013 Estimated Results(1)		
	U.S. Cellular(2)	TDS Telecom(3)	TDS(2)(3)(7)
(Dollars in millions)			
Adjusted operating revenues(4)	$3,765 - $3,885	$850 - $900	$4,660 - $4,830
Adjusted income before income taxes(5)	$780 - $900	$220 - $250	$995 - $1,145
Capital expenditures	Approx. $600	Approx. $155	Approx. $765

(1) These estimates are based on TDS' current plans, which include a multi-year deployment of 4G LTE technology which commenced in 2011 at U.S. Cellular and a multi-year deployment of IPTV which commenced in 2011 at TDS Telecom. New developments or changing conditions (such as, but not limited to, regulatory developments, customer net growth, customer demand for data services, costs to deploy, agreements for content or franchises, or possible acquisitions, dispositions or exchanges) could affect TDS' plans and, therefore, its 2013 estimated results.

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(2)

These estimates also assume the Divestiture Transaction closes July 1, 2013. Actual effects could vary significantly from these estimates as a result of a change in the expected timing of the Divestiture Transaction. See Note 7 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information on the Divestiture Transaction.

These estimates reflect U.S. Cellular's consolidated results for 2013. Estimated results reflecting U.S. Cellular's Divestiture Markets and Core Markets are shown in the table below:

	2013 Estimated Results		
	U.S. Cellular Core Markets(6)	U.S. Cellular Divestiture Markets(6)	U.S. Cellular Consolidated(6)
(Dollars in millions)			
Adjusted operating revenues(4)	$3,600 - $3,700	$165 - $185	$3,765 - $3,885
Adjusted income before income taxes(5)	$765 - $865	$15 - $35	$780 - $900
Capital expenditures	Approx. $600		Approx. $600

(3)

These estimates do not reflect the effects of the acquisition of Baja Broadband, LLC. See Note 20 Subsequent Events in the Notes to Consolidated Financial Statements for additional information.

(4)

Adjusted operating revenues is a non-GAAP financial measure defined as Operating revenues excluding U.S. Cellular Equipment sales revenues. U.S. Cellular Equipment sales revenues are excluded from Adjusted operating revenues since U.S. Cellular equipment is generally sold at a net loss, and such net loss that results from U.S. Cellular Equipment sales revenues less U.S. Cellular Cost of equipment sold is viewed as a cost of earning service revenues for purposes of assessing business results. For purposes of developing this guidance, TDS does not calculate an estimate of U.S. Cellular Equipment sales revenues. TDS believes this measure provides useful information to investors regarding TDS' results of operations. Adjusted operating revenues is not a measure of financial performance under GAAP and should not be considered as an alternative to Operating revenues as an indicator of the Company's operating performance.

(5)

Adjusted income before income taxes is a non-GAAP financial measure defined as income before: Income taxes, Depreciation, amortization and accretion, net Gain or loss on sale of business and other exit costs, and Interest expense. Adjusted income before income taxes is not a measure of financial performance under GAAP and should not be considered as an alternative to Income before income taxes as an indicator of the Company's operating performance or as an alternative to cash flows from operating activities, determined in accordance with GAAP, as an indicator of cash flows or as a measure of liquidity. TDS believes Adjusted income before income taxes is a meaningful measure of TDS' operating results before significant recurring non-cash charges, discrete gains and losses and financing charges (Interest expense). The following tables provide a reconciliation of Income before income taxes to Adjusted income before income taxes for 2013 Estimated Results and 2012, 2011 and 2010 actual results:

	2013 Estimated Results				
	U.S. Cellular Core Markets(6)	U.S. Cellular Divestiture Markets(2)(6)	U.S. Cellular Consolidated(6)	TDS Telecom	TDS(7)
(Dollars in millions)					
Income before income taxes(8)(9)	$165 - $265	($180) - ($160)	($15) - $105	$25 - $55	($55) - $95
		Approx. $195	Approx. $740		

Depreciation, amortization and accretion expense	Approx. $545			Approx. $195	Approx. $940
Interest expense	Approx. $55		Approx. $55		Approx. $110
Adjusted income before income taxes	$765 - $865	$15 - $35	$780 - $900	$220 - $250	$995 - $1,145

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	2012 Actual Results		
	U.S. Cellular Consolidated(6)	TDS Telecom	TDS(7)
(Dollars in millions)			
Income before income taxes(9)	$ 205.1	$ 45.0	$ 196.2
Depreciation, amortization and accretion expense	608.6	193.1	813.6
(Gain) loss on sale of business and other exit costs, net	21.0		21.1
Interest expense (Capitalized interest)	42.4	(1.5)	86.7
Adjusted income before income taxes	$ 877.1	$ 236.6	$ 1,117.6

	2011 Actual Results		
	U.S. Cellular Consolidated(6)	TDS Telecom	TDS(7)
(Dollars in millions)			
Income before income taxes	$ 312.8	$ 107.5	$ 363.7
Depreciation, amortization and accretion expense	573.6	180.5	765.8
(Gain) loss on sale of business and other exit costs, net			
Interest expense (Capitalized interest)	65.6	(2.6)	118.2
Adjusted income before income taxes	$ 952.0	$ 285.4	$ 1,247.7

	2010 Actual Results		
	U.S. Cellular Consolidated(6)	TDS Telecom	TDS(7)
(Dollars in millions)			
Income before income taxes	$ 241.1	$ 101.3	$ 285.8
Depreciation, amortization and accretion expense	571.0	174.1	755.6
(Gain) loss on sale of business and other exit costs, net			
Interest expense (Capitalized interest)	61.6	(0.8)	116.8
Adjusted income before income taxes	$ 873.7	$ 274.6	$ 1,158.2

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(6)

The U.S. Cellular Consolidated amounts represent GAAP financial measures and include the results of both the Core Markets and the Divestiture Markets. As used herein, "Core Markets" represents U.S. Cellular's total consolidated markets excluding the Divestiture Markets. The Core Markets and Divestiture Markets amounts represent non-GAAP financial measures. TDS believes that the Core Markets and Divestiture Markets amounts may be useful to investors and other users of its financial information in evaluating the pro forma results for the Core Markets.

(7)

The TDS column includes U.S. Cellular, TDS Telecom and also the impacts of consolidating eliminations, corporate operations and non-reportable segments, all of which are not presented above.

(8)
This amount does not include any estimate for (Gain) loss on sale of business and other exit costs, net, as the timing of such amount is not readily estimable.

(9)
The 2013 estimated amounts for depreciation, amortization and accretion expense in the U.S. Cellular Divestiture Markets include approximately $120 million of incremental accelerated depreciation resulting from the Divestiture Transaction. The 2012 actual results include $20.1 million of incremental accelerated depreciation resulting from the Divestiture Transaction.

TDS' management currently believes that the foregoing estimates represent a reasonable view of what is achievable considering actions that TDS and its subsidiaries have taken and will be taking. However, the

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current competitive conditions in the telecommunications industry 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. 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. 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.

TDS Telecom will continue to focus on revenue growth through new service offerings as well as expense reduction through product and service cost improvement 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, success-based spending to sustain managedIP growth and development of HMS products and services. Additionally, TDS Telecom will fund its share for projects approved under 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 ($15.8 million of which is included in 2013 estimated capital expenditures) of its own funds to complete 44 projects. Under the terms of the grants, the projects must be completed by June of 2015. TDS Telecom will also experience financial effects as a result of the Baja acquisition and the operations of Baja after the closing, the effects of which are not included in the above estimates for 2013.

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RESULTS OF OPERATIONS CONSOLIDATED

Year Ended December 31,	2012	Increase (Decrease)	Percentage Change	2011	Increase (Decrease)	Percentage Change	2010
(Dollars in thousands, except per share amounts)							
Operating revenues							
U.S. Cellular	$4,452,084	$ 108,738	3%	$4,343,346	$ 165,665	4%	$4,177,681
TDS Telecom	854,506	39,118	5%	815,388	19,546	2%	795,842
All other(1)	38,687	16,950	78%	21,737	8,431	63%	13,306
Total operating revenues	5,345,277	164,806	3%	5,180,471	193,642	4%	4,986,829
Operating expenses							
U.S. Cellular	4,295,428	232,862	6%	4,062,566	86,358	2%	3,976,208
TDS Telecom	813,764	97,027	14%	716,737	20,729	3%	696,008
All other(1)	52,222	13,556	35%	38,666	20,144	>100%	18,522
Total operating expenses	5,161,414	343,445	7%	4,817,969	127,231	3%	4,690,738
Operating income (loss)							
U.S. Cellular	156,656	(124,124)	(44)%	280,780	79,307	39%	201,473
TDS Telecom	40,742	(57,909)	(59)%	98,651	(1,183)	(1)%	99,834
All other(1)	(13,535)	3,394	20%	(16,929)	(11,713)	>(100)%	(5,216)
Total operating income	183,863	(178,639)	(49)%	362,502	66,411	22%	296,091
Other income (expenses)							
Equity in earnings of unconsolidated entities	92,867	10,329	13%	82,538	(15,536)	(16)%	98,074
Interest and dividend income	9,248	103	1%	9,145	(1,363)	(13)%	10,508
Gain (loss) on investment	(3,718)	(27,821)	N/M	24,103	24,103	N/M	
Interest expense	(86,745)	31,456	27%	(118,201)	(1,391)	(1)%	(116,810)
Other, net	720	(2,938)	(80)%	3,658	5,747	N/M	(2,089)
Total other income (expenses)	12,372	11,129	>100%	1,243	11,560	N/M	(10,317)
Income before income taxes	196,235	(167,510)	(46)%	363,745	77,971	27%	285,774
Income tax expense	73,582	(39,921)	(35)%	113,503	18,315	19%	95,188
Net income	122,653	(127,589)	(51)%	250,242	59,656	31%	190,586
Less: Net income attributable to noncontrolling interests, net of tax	(40,792)	8,884	18%	(49,676)	(3,939)	(9)%	(45,737)
Net income attributable to TDS shareholders	81,861	(118,705)	(59)%	200,566	55,717	38%	144,849
Preferred dividend requirement	(50)			(50)			(50)

Net income available to common shareholders	$	81,811	$	(118,705)	(59)%	$	200,516	$	55,717	38%	$	144,799
Basic earnings per share attributable to TDS shareholders(2)	$	0.75	$	(1.10)	(59)%	$	1.85	$	0.53	40%	$	1.32
Diluted earnings per share attributable to TDS shareholders(2)	$	0.75	$	(1.08)	(59)%	$	1.83	$	0.52	40%	$	1.31

N/M Percentage change not meaningful

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

(2) On January 13, 2012, TDS shareholders approved a Share Consolidation Amendment to the Restated Certificate of Incorporation of TDS. Basic and diluted earnings per share attributable to TDS shareholders have been retroactively restated to reflect the impact of the increased shares outstanding as a result of the Share Consolidation Amendment as of the beginning of all periods presented. See Note 15 Common Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information.

Operating Revenues and Expenses

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

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Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents TDS' share of net income from entities accounted for by the equity method. TDS' investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed $67.2 million, $55.3 million and $64.8 million to Equity in earnings of unconsolidated entities in 2012, 2011 and 2010, respectively. TDS received cash distributions from the LA Partnership of $66.0 million in each of 2012, 2011 and 2010.

Gain (loss) on investment

Loss on investment in 2012 includes a provision for loss of $3.7 million related to a note receivable and preferred stock acquired by U.S. Cellular in connection with an acquisition in 1998. Gain on investment in 2011 includes a gain of $12.7 million from TDS' acquisition of 63% of Airadigm in September 2011 and a $13.4 million gain recorded as a result of adjusting the carrying value of a pre-existing noncontrolling interest for which U.S. Cellular purchased the remaining interest in May 2011, as more fully described in Note 7 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements.

Interest expense

TDS recorded $15.4 million in interest expense to write-off unamortized debt issuance costs related to TDS' $282.5 million, 7.6% Senior Notes, and U.S. Cellular's $330 million, 7.5% Senior Notes, redeemed on May 2, 2011 and June 20, 2011, respectively. The impact of these write-offs in 2011, along with lower effective interest rates on long-term debt and an increase in capitalized interest for multi-year projects during 2012, resulted in the year-over-year decrease of $31.5 million expense from 2011 to 2012. The increase of $1.4 million from 2010 to 2011 also reflects the 2011 write-offs, which was partially offset by an increase in capitalized interest during 2011.

Income tax expense

The effective tax rates on Income before income taxes for 2012, 2011 and 2010 were 37.5%, 31.2% and 33.3%, respectively. The following significant discrete and other items impacted income tax expense for these years:

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

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

2010 Includes a tax benefit of $6.5 million resulting from favorable settlement of state income tax audits.

See Note 4 Income Taxes in the Notes to Consolidated Financial Statements for further information on the effective tax rate.

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Net income attributable to noncontrolling interests, net of tax

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

Year Ended December 31, (Dollars in thousands)	2012	2011	2010
Net income attributable to noncontrolling interest, net of tax U.S. Cellular			
Noncontrolling public shareholders'	$ 18,431	$ 28,934	$ 24,323
Noncontrolling shareholders' or partners'	22,361	20,742	21,414
	$ 40,792	$ 49,676	$ 45,737

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 December 31,	2012	2011	2010
Total population			
Consolidated markets(1)	93,244,000	91,965,000	90,468,000
Consolidated operating markets(1)	46,966,000	46,888,000	46,546,000
Market penetration at end of period			
Consolidated markets(2)	6.2%	6.4%	6.7%
Consolidated operating markets(2)	12.3%	12.6%	13.0%
All Customers			
Total at end of period	5,798,000	5,891,000	6,072,000
Gross additions	1,302,000	1,155,000	1,372,000
Net additions (losses)	(88,000)	(186,000)	(69,000)
Smartphones sold as a percent of total devices sold(3)	55.8%	44.0%	24.6%
Retail Customers			
Total at end of period	5,557,000	5,608,000	5,729,000
Postpaid smartphone penetration(3) (4)	41.8%	30.5%	16.7%
Gross additions	1,248,000	1,064,000	1,205,000
Net retail additions (losses)(5)	(47,000)	(125,000)	(15,000)
Net postpaid additions (losses)	(165,000)	(117,000)	(66,000)
Net prepaid additions (losses)	118,000	(8,000)	51,000
Service revenue components (000s)			
Retail service	$ 3,547,979	$ 3,486,522	$ 3,459,546
Inbound roaming	348,717	348,309	253,290
Other	202,160	218,966	200,165
Total service revenues (000s)	$ 4,098,856	$ 4,053,797	$ 3,913,001
Total ARPU(6)	$ 58.70	$ 56.54	$ 53.27
Billed ARPU(7)	$ 50.81	$ 48.63	$ 47.10
Postpaid ARPU(8)	$ 54.32	$ 54.00	$ 51.21

Postpaid churn rate(9)	1.7%	1.5%	1.5%
Capital expenditures (000s)	$ 836,748	$ 782,526	$ 583,134
Cell sites in service	8,028	7,882	7,645

(1)
Used only to calculate market penetration of consolidated markets and consolidated operating markets, respectively. See footnote (2) below.

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(2) Market Penetration is calculated by dividing the number of wireless customers at the end of the period by the total population of consolidated markets and consolidated operating markets, respectively, as estimated by Claritas®.

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

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

(5) Includes net postpaid additions (losses) and net prepaid additions (losses).

(6) Total ARPU Average monthly service revenue per customer includes retail service, inbound roaming and other service revenues and is calculated by dividing total service revenues by the number of months in the period and by the average total customers during the period.

(7) Billed ARPU Average monthly billed revenue per customer is calculated by dividing total retail service revenues by the number of months in the period and by the average total customers during the period. Retail service revenues include revenues attributable to postpaid, prepaid and reseller customers.

(8) Postpaid ARPU Average monthly revenue per postpaid customer is calculated by dividing total retail service revenues from postpaid customers by the number of months in the period and by the average postpaid customers during the period.

(9) Represents the percentage of the retail postpaid customer base that disconnects service each month. This figure represents the average monthly postpaid churn rate for each respective annual period.

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2012	Increase/ (Decrease)	Percentage Change	2011	Increase/ (Decrease)	Percentage Change	2010
Retail service	$ 3,547,979	$ 61,457	2%	$ 3,486,522	$ 26,976	1%	$ 3,459,546
Inbound roaming	348,717	408		348,309	95,019	38%	253,290
Other	202,160	(16,806)	(8)%	218,966	18,801	9%	200,165
Service revenues	4,098,856	45,059	1%	4,053,797	140,796	4%	3,913,001
Equipment sales	353,228	63,679	22%	289,549	24,869	9%	264,680
Total operating revenues	4,452,084	108,738	3%	4,343,346	165,665	4%	4,177,681
System operations (excluding Depreciation, amortization and accretion reported below)	946,805	17,426	2%	929,379	74,448	9%	854,931
Cost of equipment sold	935,947	144,145	18%	791,802	35,512	5%	756,290

Selling, general and administrative	1,764,933	(4,768)		1,769,701	(13,614)	(1)%	1,783,315
Depreciation, amortization and accretion	608,633	35,076	6%	573,557	2,602		570,955
(Gain) loss on asset disposals and exchanges, net	18,088	19,961	N/M	(1,873)	(12,590)	N/M	10,717
(Gain) loss on sale of business and other exit costs, net	21,022	21,022	N/M			N/M	
Total operating expenses	4,295,428	232,862	6%	4,062,566	86,358	2%	3,976,208
Operating income	$ 156,656	$ (124,124)	(44)%	$ 280,780	$ 79,307	39%	$ 201,473

N/M Percentage change not meaningful

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Operating Revenues

Service revenues

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

Retail service revenues

Retail service revenues increased by $61.5 million, or 2%, to $3,548.0 million primarily due to the impact of an increase in the average monthly retail service revenue per customer, partially offset by a decrease in U.S. Cellular's average customer base.

The average number of customers decreased to 5,819,000 in 2012 from 5,975,000 in 2011, driven by reductions in postpaid and reseller customers. The average number of customers in 2011 decreased from 6,121,000 in 2010 driven by reductions in postpaid, prepaid and reseller customers.

Average monthly retail service revenue per customer increased to $50.81 in 2012 from $48.63 in 2011, and in 2011 increased from $47.10 in 2010. The increase in 2012 from 2011 reflects the impact of a larger portion of the customer base using smartphones which drives incremental data access revenue. The average monthly retail service revenue increase in both years also includes the impact of a reduction in the number of reseller customers, who typically generate lower average monthly revenues.

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

U.S. Cellular accounts for loyalty reward points under the deferred revenue method. Under this method, U.S. Cellular allocates a portion of the revenue billed to customers with applicable plans to the loyalty reward points. The revenue allocated to these points is initially deferred in the Consolidated Balance Sheet and is recognized in future periods when the loyalty reward points are redeemed or used. Application of the deferred revenue method of accounting related to loyalty reward points resulted in deferring net revenues of $17.7 million in 2012, $31.8 million in 2011, and $7.1 million in 2010. Deferred revenues related to loyalty reward points are included in the Customer deposits and deferred revenues in the Consolidated Balance Sheet at December 31, 2012 and December 31, 2011.

Inbound roaming revenues

Inbound roaming revenues of $348.7 million were flat in 2012 compared to 2011 as higher data revenues, reflecting significantly higher volumes but lower negotiated rates, were offset by lower voice revenues, reflecting both lower volumes and rates. In 2011, inbound roaming revenues increased $95.0 million, or 38% compared to 2010 as an increase in data roaming revenues was partially offset by a decrease in voice roaming revenues. U.S. Cellular expects continued growth in data roaming volume but also expects that the revenue impact of this growth will be offset by the impacts of decreases in negotiated data roaming rates and voice roaming volumes.

Other revenues

As described below, ETC support was phased down to 80% of 2011 levels beginning July 1, 2012. As a result, Other revenues decreased by $16.8 million, or 8%, in 2012 compared to 2011. In 2011, the increase of $18.8 million, or 9%, was driven primarily by increased ETC revenues due to expanded eligibility in certain states and adjustments by the Universal Service Administrative Company ("USAC") that reduced amounts received in prior years. U.S. Cellular was eligible to receive ETC funds in sixteen states in 2012, 2011 and 2010. ETC revenues recorded in 2012, 2011 and 2010 were $140.8 million, $160.5 million and $143.9 million, respectively.

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Pursuant to the FCC's Reform Order (See "Overview FCC Reform Order" above), U.S. Cellular's ETC support is currently being phased down. Support for 2012 (excluding certain adjustments) was frozen on January 1, 2012 at 2011 levels and was reduced by 20% starting in July 2012. Support will be reduced by 20% in July of each subsequent year; however, if the Phase II Mobility Fund is not operational by July 2014, the phase down will halt at that time and U.S. Cellular will receive 60% of its baseline support until the Phase II Mobility Fund is operational.

See the "Overview FCC Reform Order" section above for a discussion of alternative sources of funding. At this time, U.S. Cellular cannot predict the net effect of the FCC's changes to the USF high cost support program in the Reform Order or the extent to which reductions in support will be offset with additional support from the CAF or the Mobility Fund. Accordingly, U.S. Cellular cannot predict whether such changes will have a material adverse effect on U.S. Cellular's business, financial condition or results of operations.

Equipment sales revenues

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

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

The increase in 2012 equipment sales revenues of $63.7 million, or 22%, to $353.2 million was driven primarily by a 17% increase in average revenue per wireless device sold; an increase in equipment activation fees also was a factor. Average revenue per wireless device sold increased due to a shift in customer preference to higher priced smartphones. The increase in 2011 equipment sales revenues of $24.9 million, or 9%, to $289.5 million was driven by a 15% increase in average revenue per wireless device sold offset by a 4% decrease in total wireless devices sold.

Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

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

System operations expenses increased $17.4 million, or 2%, to $946.8 million in 2012 and $74.4 million, or 9%, to $929.4 million in 2011. Key components of the overall increases in System operations expenses were as follows:

Maintenance, utility and cell site expenses increased $24.4 million, or 6%, in 2012 and $26.4 million, or 7%, in 2011, driven primarily in both years by increases in the number of cell sites within U.S. Cellular's network and costs related to the deployment and operation of LTE networks. The number of cell sites totaled 8,028, 7,882 and 7,645 in 2012, 2011 and 2010, respectively, as U.S. Cellular continued to expand and enhance coverage in its existing markets. The increases in expenses were also due to an increase in software maintenance costs to support increased data needs.

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Customer usage expenses increased by $4.1 million, or 1%, in 2012, and $2.7 million, or 1%, in 2011, primarily due to an increase in data capacity and usage, offset by a decline in voice usage in both years as well as reduced intercarrier compensation expenses as a result of the FCC's Reform Order.

Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming decreased $11.1 million, or 4%, in 2012 and increased $45.4 million, or 22%, in 2011. In 2012 roaming data usage continued to increase rapidly but it was more than offset by reductions in negotiated roaming rates and continued decreases in voice roaming. The increase in 2011 was primarily due to increased data roaming usage partially offset by a decline in voice roaming expenses.

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

Cost of equipment sold

Cost of equipment sold increased $144.1 million, or 18%, in 2012 and $35.5 million, or 5% in 2011. In 2012, total devices sold increased by 1% due to expanded distribution for U Prepaid compared to a decline in total wireless devices sold in 2011. In both years there was an increase in the average cost per wireless device sold (18% in 2012 and 8% in 2011) due to a shift in the mix of sales to smartphones. In 2012, the introduction of 4G LTE devices also was a significant driver to the increase in Cost of equipment sold as these devices are more costly than similar 3G devices. However, 4G LTE technology results in lower system operations expense during a customer's lifecycle.

U.S. Cellular's loss on equipment, defined as equipment sales revenues less cost of equipment sold, was $582.7 million, $502.3 million and $491.6 million for 2012, 2011 and 2010, respectively. U.S. Cellular expects loss on equipment to continue to be a significant cost in the foreseeable future as wireless carriers continue to use device availability and pricing as a means of competitive differentiation. In addition, U.S. Cellular expects increasing sales of data centric wireless devices such as smartphones and tablets to result in higher equipment subsidies over time; these devices generally have higher purchase costs which cannot be recovered through proportionately higher selling prices to customers. Smartphones sold as a percentage of total devices sold was 56%, 44% and 25% in 2012, 2011 and 2010, respectively.

Selling, general and administrative expenses

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

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Selling, general and administrative expenses decreased by $4.8 million to $1,764.9 million in 2012 and by $13.6 million to $1,769.7 in 2011. Key components of the net changes in Selling, general and administrative expenses were as follows:

2012

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

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

2011

- Selling and marketing expenses decreased by $13.7 million, or 2%, primarily due to lower advertising costs as a result of shifting advertising efforts to more cost effective methods as well as lower commissions expense reflecting fewer eligible transactions.

- General and administrative expenses were relatively flat year over year.

Depreciation, amortization and accretion

Depreciation, amortization and accretion expense increased $35.1 million in 2012, or 6% primarily due to the acceleration of depreciation in the Divestiture Markets and depreciation and amortization on asset additions.

(Gain) loss on asset disposals and exchanges, net

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

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

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

See "Financial Resources" and "Liquidity and Capital Resources" for a discussion of U.S. Cellular's capital expenditures.

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RESULTS OF OPERATIONS TDS TELECOM

TDS conducts its wireline operations through TDS Telecom, a wholly-owned subsidiary. The following table summarizes operating data for TDS Telecom's ILEC and CLEC operations:

As of December 31,	2012	2011	2010
ILEC			
Residential Connections			
Physical access lines(1)	350,100	367,500	386,600
Broadband connections(2)	221,700	219,600	210,300
IPTV customers	7,900	4,600	3,900
ILEC residential connections	579,700	591,700	600,800
Commercial Connections			
Physical access lines(1)	107,600	114,400	121,100
Broadband connections(2)	18,500	18,200	17,000
managedIP connections(3)	17,200	8,600	4,000
ILEC commercial connections	143,300	141,200	142,100
CLEC			
Residential Connections			
Physical access lines(1)	24,600	31,800	42,200
Broadband connections(2)	8,200	11,000	14,500
CLEC residential connections	32,800	42,800	56,700
Commercial Connections			
Physical access lines(1)	135,500	157,300	174,800
Broadband connections(2)	11,200	14,600	16,400
managedIP connections(3)	77,400	44,900	26,000
CLEC commercial connections	224,100	216,800	217,200
Total ILEC and CLEC Customer Connections	979,900	992,500	1,016,800

(1) A physical access line is the individual circuit connecting a customer to TDS Telecom's central office facilities.

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

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

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TDS Telecom Total (ILEC, CLEC, and HMS Operations)

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2012	Increase (Decrease)	Percentage Change	2011	Increase (Decrease)	Percentage Change	2010
Operating revenues							
ILEC revenues	$ 578,412	$ (19,399)	(3)%	$ 597,811	$ (9,033)	(1)%	$ 606,844
CLEC revenues	173,397	(6,935)	(4)%	180,332	(7,652)	(4)%	187,984
HMS revenues	113,010	65,830	>100%	47,180	36,630	>100%	10,550
Intra-company elimination	(10,313)	(378)	(4)%	(9,935)	(399)	(4)%	(9,536)
TDS Telecom operating revenues	854,506	39,118	5%	815,388	19,546	2%	795,842
Operating expenses							
ILEC expenses	514,138	17,515	4%	496,623	(11,782)	(2)%	508,405
CLEC expenses	179,289	1,371	1%	177,918	(8,164)	(4)%	186,082
HMS expenses	130,650	78,519	>100%	52,131	41,074	>100%	11,057
Intra-company elimination	(10,313)	(378)	(4)%	(9,935)	(399)	(4)%	(9,536)
TDS Telecom operating expenses	813,764	97,027	14%	716,737	20,729	3%	696,008
TDS Telecom operating income	$ 40,742	$ (57,909)	(59)%	$ 98,651	$ (1,183)	(1)%	$ 99,834

ILEC Operations

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2012	Increase (Decrease)	Percentage Change	2011	Increase (Decrease)	Percentage Change	2010
Operating revenues							
Residential	$ 279,400	$ (458)		$ 279,858	$ 455		$ 279,403
Commercial	97,382	(1,199)	(1)%	98,581	(6,263)	(6)%	104,844
Wholesale	201,630	(17,742)	(8)%	219,372	(3,225)	(1)%	222,597
Total operating revenues	578,412	(19,399)	(3)%	597,811	(9,033)	(1)%	606,844
Operating expenses							
Cost of services and products (excluding depreciation, amortization and accretion reported below)	192,514	923		191,591	(1,108)	(1)%	192,699
Selling, general and administrative expenses	170,493	12,191	8%	158,302	(10,481)	(6)%	168,783
Depreciation, amortization and accretion	150,557	4,870	3%	145,687	(664)		146,351
Loss on asset disposals, net	535	(508)	(49)%	1,043	471	82%	572
Loss on sale of business and other exit costs, net	39	39	N/M			N/M	
Total operating expenses	514,138	17,515	4%	496,623	(11,782)	(2)%	508,405

Total operating income	$	64,274	$	(36,914)	(36)%	$ 101,188	$	2,749	3%	$ 98,439

N/M Percentage change not meaningful

Operating Revenues

Residential revenues consist of voice, data and video services to our residential customer base.

Residential revenues of $279.4 million in 2012 were essentially the same compared to 2011 and 2010. Reductions in the number of residential connections of 2% and 1% in 2012 and 2011, respectively, negatively impacted residential revenues by $4.7 million and $2.1 million. Customers choosing higher speed data plans drove a 2% increase in average revenue per residential connection in 2012, which increased residential revenues $6.0 million. Reductions in discounts attributed to bundled offerings increased revenues $2.7 million in 2011 compared to 2010.

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Commercial revenues consist of data and voice services and sales and installation of business telephone systems to our commercial customer base.

The decrease in Commercial revenues of $1.2 million or 1% to $97.4 million in 2012 was primarily due to a $1.9 million decline in business systems sales and charges for directory assistance. A $1.9 million increase in revenue resulting from an increase in commercial connections was partially offset by a $1.3 million decrease in the average revenue per commercial connection.

The decrease in Commercial revenues of $6.3 million or 6% to $98.6 million in 2011 was primarily due to a $3.2 million decline in business systems sales. A decrease in commercial connections resulted in a $1.5 million decrease in revenue and a decrease in the average revenue per commercial connection reduced revenue by $1.3 million.

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

Wholesale revenues decreased $17.7 million or 8% to $201.6 million in 2012. Wholesale revenues decreased $7.8 million in 2012 as a result of changes in support mechanisms and in intercarrier compensation resulting from the Reform Order released by the FCC in November 2011, as described in the Overview FCC Reform Order section above. Revenues received through interstate and intrastate regulatory recovery mechanisms also decreased $5.7 million due to changes in eligible expense recovery thresholds and reductions in the pool earnings. Additionally, Wholesale revenues declined $4.9 million due to a 12% decline in intrastate minutes of use. TDS Telecom expects Wholesale revenues to continue to decline in 2013.

Wholesale revenues decreased by $3.2 million or 1% to $219.4 million in 2011. Wholesale revenues decreased $4.2 million due to a 9% decline in intrastate minutes of use and $2.4 million due to declines in revenues received through interstate regulatory recovery mechanisms. Partially offsetting these decreases was an increase of $1.2 million in revenues received from state USF programs.

Operating Expenses

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

Cost of services and products of $192.5 million in 2012 were flat compared to 2011. Increases in employee related costs, increased charges related to IPTV expansion and network maintenance costs were nearly offset by decreased costs of goods sold, lower circuit charges and a decrease in reciprocal compensation expense related to the FCC Reform Order which mandated rate reductions that became effective in July of 2012.

Cost of services and products of $191.6 million in 2011 were flat compared to 2010. Reduced network costs primarily resulting from improved circuit infrastructure and traffic routing and decreased costs of goods sold, were nearly offset by increased expense associated with promotions.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $12.2 million or 8% to $170.5 million in 2012. Discrete benefits recorded in 2011 including receipt of insurance proceeds, the refund of certain prior year regulatory contributions and the settlement of a legal dispute decreased 2011 Selling, general and administrative expenses by $7.7 million. These discrete benefits in 2011 were the primary cause of the overall expense decrease from 2010 to 2011, and expense increase from 2011 to 2012. Additionally, higher employee related and contractor costs, and contributions to the USF contributed to the increase in 2012.

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Depreciation, amortization and accretion expense

Depreciation, amortization and accretion expense increased $4.9 million or 3% to $150.6 million in 2012 due to increased capital additions.

Depreciation, amortization and accretion expense of $145.7 million in 2011 was flat compared to 2010.

CLEC Operations

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2012	Increase/ (Decrease)	Percentage Change	2011	Increase/ (Decrease)	Percentage Change	2010
Operating revenues							
Residential	$ 17,192	$ (4,814)	(22)%	$ 22,006	$ (8,545)	(28)%	$ 30,551
Commercial	138,637	407		138,230	2,018	1%	136,212
Wholesale	17,568	(2,528)	(13)%	20,096	(1,125)	(5)%	21,221
Total operating revenues	173,397	(6,935)	(4)%	180,332	(7,652)	(4)%	187,984
Operating expenses							
Cost of services and products (excluding depreciation, amortization and accretion reported below)	89,949	(1,399)	(2)%	91,348	(5,586)	(6)%	96,934
Selling, general and administrative expenses	66,886	2,377	4%	64,509	402	1%	64,107
Depreciation, amortization and accretion	21,969	(7)		21,976	(2,703)	(11)%	24,679
Loss on asset disposals, net	485	400	>100%	85	(277)	(77)%	362
Total operating expenses	179,289	1,371	1%	177,918	(8,164)	(4)%	186,082
Total operating income	$ (5,892)	$ (8,306)	N/M	$ 2,414	$ 512	27%	$ 1,902

N/M Percentage change not meaningful

Operating Revenues

Residential revenues consist of data and voice services to our residential customer base.

Residential revenues decreased $4.8 million or 22% to $17.2 million in 2012, and decreased $8.5 million or 28% to $22.0 million in 2011. Average residential connections decreased 24% in 2012 and 2011, respectively, as the CLEC operations continue to implement a strategic shift towards serving primarily a commercial subscriber base.

Commercial revenues consist of data and voice services to our commercial customer base.

Commercial revenues of $138.6 million in 2012 were essentially unchanged compared to 2011 and 2010. The revenue increase from the growth in managedIP connections was partially offset by a decrease in revenue from the decline in legacy voice and data services in both 2012 and 2011.

Wholesale revenues represent charges to other carriers for utilizing TDS Telecom's network infrastructure.

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Wholesale revenues decreased $2.5 million or 13% to $17.6 million in 2012 primarily due to lower average rates due to the FCC Reform Order which mandated rate reductions that became effective July 2012. Wholesale revenues decreased $1.1 million or 5% to $20.1 million in 2011 due to an 11% reduction in minutes of use, which resulted in a $3.1 million decrease to Wholesale revenues which was partially offset by a $1.8 million increase in special access revenues.

Operating Expenses

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

Cost of services decreased $1.4 million or 2% to $89.9 million in 2012, and decreased $5.6 million or 6% to $91.3 million in 2011. Reductions in purchased network services of $2.7 million and $5.5 million in 2012 and 2011, respectively, have been realized as a result of the decline in the residential customer base. Reciprocal compensation expense decreased $0.9 million in 2012 due to the FCC Reform Order.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $2.4 million or 4% to $66.9 million in 2012 primarily due to an increase in contributions to the USF.

Selling, general and administrative expenses were relatively unchanged in 2011 as increases in payroll related expense of $1.5 million were mostly offset by decreases in USF charges and bad debt expense.

Depreciation, amortization and accretion expense

Depreciation, amortization and accretion expense of $22.0 million was unchanged at 2012.

Depreciation, amortization and accretion expense decreased $2.7 million or 11% to $22.0 million in 2011 primarily due to accelerated depreciation recorded in 2010 on certain equipment due to technological obsolescence as well as certain assets becoming fully depreciated in 2011.

HMS Operations

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2012	Increase (Decrease)	Percentage Change	2011	Increase (Decrease)	Percentage Change	2010
Total operating revenues	$ 113,010	$ 65,830	>100%	$ 47,180	$ 36,630	>100%	$ 10,550
Operating expenses							
Cost of services and products (excluding depreciation, amortization and accretion reported below)	75,781	52,279	>100%	23,502	19,903	>100%	3,599
Selling, general and administrative expenses	34,193	18,546	>100%	15,647	11,410	>100%	4,237
Depreciation, amortization and accretion	20,568	7,701	60%	12,867	9,843	>100%	3,024
Loss on asset disposals, net	108	(7)	(6)%	115	(82)	(42)%	197
Total operating expenses	130,650	78,519	>100%	52,131	41,074	>100%	11,057
Total operating income	$ (17,640)	$ (12,689)	>(100)%	$ (4,951)	$ (4,444)	>(100)%	$ (507)

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Operating Revenues

HMS operating revenues consist of colocation, dedicated hosting, hosted application management, cloud computing services, and planning, engineering, procurement, installation, sales and management of IT infrastructure hardware solutions.

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

HMS revenues increased $36.6 million to $47.2 million in 2011. The acquisitions of VISI and TEAM in March and December of 2010, respectively and OneNeck in June of 2011 contributed $34.9 million of the increase in 2011 revenues compared to 2010.

Operating Expenses

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

Cost of services and products increased $52.3 million to $75.8 million in 2012 and increased $19.9 million to $23.5 million in 2011. Acquisitions increased Cost of services and products $47.7 million and $19.1 million in 2012 and 2011, respectively.

Selling, general and administrative expense

Selling, general and administrative expense increased $18.5 million to $34.2 million in 2012 and increased $11.4 million to $15.6 million in 2011. Acquisitions increased Selling, general and administrative expense $15.1 million and $9.9 million in 2012 and 2011, respectively. Additional expenses were incurred in both 2012 and 2011 as TDS Telecom develops the infrastructure and products and services to grow the HMS operations.

Depreciation, amortization and accretion expense

Depreciation, amortization and accretion expense increased $7.7 million to $20.6 million in 2012 and increased $9.8 million to $12.9 million in 2011 primarily due to acquisitions. Customer list and trade name amortization contributed $4.4 million and $3.6 million of the increase in 2012 and 2011, respectively.

INFLATION

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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FINANCIAL RESOURCES

TDS operates a capital- and marketing-intensive business. TDS utilizes cash on hand, cash from operating activities, cash proceeds from divestitures and disposition of investments, short-term credit facilities and long-term debt financing to fund its acquisitions (including licenses), construction costs, operating expenses and share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions, capital expenditures and other factors. The table below and the following discussion in this Financial Resources section summarize TDS' cash flow activities in 2012, 2011 and 2010.

(Dollars in thousands)	2012	2011	2010
Cash flows from (used in)			
Operating activities	$ 1,105,172	$ 1,255,711	$ 1,076,207
Investing activities	(998,078)	(866,089)	(1,208,038)
Financing activities	70,112	(168,030)	(200,955)
Net increase (decrease) in cash and cash equivalents	$ 177,206	$ 221,592	$ (332,786)

The Divestiture Transaction, as described above, resulted in net Cash used in operating activities of $0.3 million during the year ended December 31, 2012. Cash flows from operating and financing activities in future periods will be impacted by the Divestiture Transaction, as described in the Divestiture Transaction section.

Cash Flows from Operating Activities

The following table presents Adjusted OIBDA and is included for purposes of analyzing changes in operating activities. Adjusted OIBDA is defined as operating income excluding the effects of: depreciation, amortization and accretion (OIBDA); the loss on impairment of assets (if any); the net gain or loss on asset disposals and exchanges (if any); and the net gain or loss on sale of business and other exit costs (if any). A more detailed description of Adjusted OIBDA is presented with Note 17 Business Segment Information in the Notes to Consolidated Financial Statements.

(Dollars in thousands)	2012	2011	2010
Operating income	$ 183,863	$ 362,502	$ 296,091
Add back:			
Depreciation, amortization and accretion	813,626	765,776	755,649
Loss on impairment of assets	515		
(Gain) loss on asset disposals and exchanges, net	19,741	(810)	11,763
(Gain) loss on sale of business and other exit costs, net	21,061		
Adjusted OIBDA	$ 1,038,806	$ 1,127,468	$ 1,063,503

Cash flows from operating activities in 2012 were $1,105.2 million, a decrease of $150.5 million from 2011. Significant changes included the following:

Adjusted OIBDA, as shown in the table above, decreased by $88.7 million primarily due to a decrease in operating income. See discussion in the "Results of Operations" for factors that affected operating income.

Income tax refunds, net of $62.0 million were recorded in 2012 compared to income tax refunds, net of $67.0 million in 2011. This resulted in a year-over-year decrease in cash flows of $5.0 million. Federal tax refunds of $71.5 million were received in 2012 for carrybacks from the 2011 tax year to the 2009 and 2010 tax years. TDS incurred a federal net operating loss in 2011 attributed to 100% bonus

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depreciation applicable to qualified capital expenditures. TDS' future federal income tax liabilities associated with the current benefits being realized from bonus depreciation are accrued as a component of Net deferred income tax liability (noncurrent) in the Consolidated Balance Sheet. TDS expects federal income tax payments to substantially increase beginning in 2014 and remain at a higher level for several years as the amount of TDS' federal tax depreciation deduction substantially decreases as a result of having accelerated depreciation in earlier years. This expectation considers the bonus depreciation provisions enacted in January 2013, which includes 50% federal tax bonus depreciation on qualified capital expenditures in the 2013 tax year and assumes that federal bonus depreciation provisions are not enacted in future periods. To the extent further federal bonus depreciation provisions are enacted, this expectation will change.

Changes in Accounts receivable combined with the impact of Bad debts expense required $6.4 million and $26.8 million in 2012 and 2011, respectively, resulting in a year-over-year increase in cash flows of $20.4 million. Accounts receivable balances fluctuate based on the timing of customer payments, promotions and other factors.

Changes in Inventory required $29.9 million in 2012 and $13.4 million in 2011, resulting in a $16.5 million year-over-year decrease in cash flows. This change was primarily due to higher inventory levels and a change in inventory mix, resulting in a higher cost per unit.

Changes in Accounts payable required $12.3 million in 2012 and provided $29.3 million in 2011 causing a year-over-year decrease in cash flows of $41.6 million. Changes in Accounts payable were primarily driven by payment timing differences related to network equipment and device purchases.

Changes in other assets and liabilities required $30.5 million and $4.4 million in 2012 and 2011, respectively, causing a year-over-year decrease in cash flows of $26.1 million. This change was primarily due to an increase in LTE-related deferred charges.

Cash flows from operating activities in 2011 were $1,255.7 million, an increase of $179.5 million from 2010. Significant changes included the following:

Adjusted OIBDA, as shown in the table above, increased by $64.0 million primarily due to an increase in operating income. See discussion in the "Results of Operations" for factors that affected operating income.

Income tax refunds, net of $67.0 million were recorded in 2011 compared to income tax payments, net of $87.1 million in 2010 resulting in a $154.1 million year-over-year increase in cash flows. Tax refunds received in 2011 primarily represented federal refunds related to the 2010 tax year.

Changes in Inventory required $13.4 million in 2011 and provided $40.7 million in 2010, resulting in a $54.0 million year-over-year decrease in cash flows. This change was primarily due to higher inventory levels and a change in inventory mix, resulting in a higher cost per unit.

Changes in Accounts payable provided $29.3 million in 2011 and required $47.8 million in 2010 causing a year-over-year increase in cash flows of $77.1 million. Changes in Accounts payable were driven primarily by payment timing differences related to network equipment and device purchases.

Changes in Customer deposits and deferred revenues provided $35.5 million in 2011 and $6.5 million in 2010, resulting in a year-over-year increase in cash flows of $29.0 million. This change was primarily driven by deferred revenues related to the loyalty reward program at U.S. Cellular.

Changes in Other assets and liabilities required $4.4 million in 2011 and provided $93.5 million in 2010, causing a year-over-year net decrease in cash flows of $97.9 million. In 2009, a $38.0 million deposit was paid to the Internal Revenue Service ("IRS") to eliminate any potential interest due to the IRS subsequent to the date of the deposit. In 2010, after closure of the IRS audit for the tax years 2002 through 2005, the IRS returned TDS' $38.0 million deposit. This $38.0 million was included in Change in other assets and liabilities in 2010 as a cash inflow. Changes in amounts due to agents and accrued

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rebates were the primary cause of the remaining $59.9 million year-over-year change in Other assets and liabilities.

Cash Flows from Investing Activities

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

Capital expenditures (i.e. additions to property, plant and equipment and system development expenditures) totaled $1,004.6 million in 2012, $987.2 million in 2011 and $755.0 million in 2010. Cash used for additions to property, plant and equipment is reported in the Consolidated Statement of Cash Flows and excludes amounts accrued in Accounts payable for capital expenditures at December 31 of the current year, and includes amounts paid in the current period that were accrued at December 31 of the prior year. Cash used for additions to property, plant and equipment totaled $995.5 million, $971.8 million and $739.2 million in 2012, 2011 and 2010, respectively. These expenditures were made to provide for customer and usage growth (in recent periods, particularly with respect to data usage), to upgrade service and to take advantage of service-enhancing and cost-reducing technological developments in order to maintain competitive services.

U.S. Cellular's capital expenditures totaled $836.7 million in 2012, $782.5 million in 2011 and $583.1 million in 2010 representing expenditures to construct new cell sites, build-out 4G LTE networks in certain markets, increase capacity in existing cell sites and switches, develop new and enhance existing office systems such as the new Billing and Operational Support System ("B/OSS") and customer relationship management platforms, and construct new and remodel existing retail stores.

TDS Telecom's capital expenditures for its ILEC operations totaled $137.1 million in 2012, $141.8 million in 2011 and $123.6 million in 2010 representing expenditures to upgrade property, plant and equipment to provide enhanced services. TDS Telecom's capital expenditures for its CLEC operations totaled $21.5 million in 2012, $22.4 million in 2011 and $20.3 million in 2010 for switching and other network facilities. TDS Telecom's capital expenditures for its HMS operations totaled $15.3 million in 2012, $27.0 million in 2011 and $13.4 million in 2010 representing expenditures to expand data center facilities and purchase IT related equipment to deliver products and services.

Cash payments for acquisitions in 2012, 2011 and 2010 were as follows:

Cash Payments for Acquisitions(1) **(Dollars in thousands)**	**2012**	**2011**	**2010**
U.S. Cellular licenses	$ 122,690	$ 4,406	$ 17,101
U.S. Cellular businesses		19,367	
HMS businesses	40,692	95,865	64,590
Non-Reportable Segment(2)		(14,130)	
Total	$ 163,382	$ 105,508	$ 81,691

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

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

In March 2012, U.S. Cellular sold the majority of the assets and liabilities of a wireless market for $49.8 million in cash. See Note 7 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to this sale.

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TDS invested $120.0 million, $180.9 million and $493.8 million in 2012, 2011 and 2010, respectively, in U.S. Treasury securities and corporate notes with maturities greater than three months from the acquisition date. TDS realized cash proceeds of $243.4 million, $393.2 million and $106.3 million in 2012, 2011 and 2010, respectively, related to the maturities of its investments in U.S. Treasury securities, corporate notes and certificates of deposit.

Cash Flows from Financing Activities

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

In September 2011, Airadigm paid $32.7 million to the FCC in satisfaction of amounts due pursuant to Airadigm's plan of reorganization. See Note 7 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to this acquisition.

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

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

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

In November 2010, TDS issued $225.0 million aggregate principal amount of 6.875% Senior Notes due in 2059, and paid related debt issuance costs of $7.6 million. In December 2010, TDS redeemed $217.5 million aggregate principal amount of the outstanding $500.0 million aggregate principal amount of its 7.6% Series A Senior Notes due 2041. The redemption price of $222.0 million was 100% of the outstanding aggregate principal amount, plus accrued and unpaid interest thereon until the redemption date. The redemption was financed with the net proceeds from the issuance of $225.0 million in aggregate principal amount of TDS' 6.875% Senior Notes.

Free Cash Flow

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

(Dollars in thousands)	2012	2011	2010
Cash flows from operating activities	$ 1,105,172	$ 1,255,711	$ 1,076,207
Cash used for additions to property, plant and equipment	(995,517)	(971,759)	(739,222)
Free cash flow	$ 109,655	$ 283,952	$ 336,985

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

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LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Cash and Cash Equivalents

At December 31, 2012, TDS had $740.5 million in Cash and cash equivalents. Of this amount, $378.4 million consisted of Cash and cash equivalents held by U.S. Cellular. Cash and cash equivalents include cash and short-term, highly liquid investments with original maturities of three months or less. The primary objective of TDS' Cash and cash equivalents investment activities is to preserve principal. At December 31, 2012, the majority of TDS' Cash and cash equivalents was held in money market funds that invest exclusively in U.S. Treasury securities or in repurchase agreements fully collateralized by such obligations. TDS monitors the financial viability of the money market funds and direct investments in which it invests and believes that the credit risk associated with these investments is low.

Short-term and Long-term Investments

At December 31, 2012, TDS had $115.7 million in Short-term investments and $50.3 million in Long-term investments. Of this amount, $100.7 million and $50.3 million consisted of Short-term investments and Long-term investments, respectively, held by U.S. Cellular. Short-term and Long-term investments consist primarily of U.S. Treasury securities which are designated as held-to-maturity investments and recorded at amortized cost in the Consolidated Balance Sheet. For these investments, TDS' objective is to earn a higher rate of return on funds that are not anticipated to be required to meet liquidity needs in the near term, while maintaining a low level of investment risk. See Note 3 Fair Value Measurements in the Notes to Consolidated Financial Statements for additional details on Short-term and Long-term investments.

Revolving Credit Facilities

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

In connection with U.S. Cellular's revolving credit facility, TDS and U.S. Cellular entered into a subordination agreement dated December 17, 2010 together with the administrative agent for the lenders under U.S. Cellular's revolving credit facility. At December 31, 2012, no U.S. Cellular debt was subordinated pursuant to this subordination agreement.

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

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However, a downgrade in TDS' or U.S. Cellular's credit rating could adversely affect their ability to renew the credit facilities or obtain access to other credit facilities in the future.

As of December 31, 2012, TDS' and U.S. Cellular's credit ratings from the nationally recognized credit rating agencies remained at investment grade.

The following table summarizes the terms of such revolving credit facilities as of December 31, 2012:

(Dollars in millions)	TDS	U.S. Cellular
Maximum borrowing capacity	$ 400.0	$ 300.0
Letter of credit outstanding	$ 0.2	$ 0.2
Amount available for use	$ 399.8	$ 299.8
Agreement date	December 2010	December 2010
Maturity date	December 2017	December 2017

TDS and U.S. Cellular may seek to extend the maturity date from time to time. In 2012, each of the TDS and U.S. Cellular revolving credit facilities were amended to extend the maturity date from December 2015 to December 2017.

The continued availability of the revolving credit facilities requires TDS and U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing. TDS and U.S. Cellular believe they were in compliance as of December 31, 2012 with all of the covenants and requirements set forth in their revolving credit facilities.

Long-Term Financing

TDS and its subsidiaries had the following debt outstanding as of December 31, 2012:

(Dollars in thousands)	Issuance Date	Maturity Date	Call Date(1)	Aggregate Principal Amount
TDS:				
Unsecured Senior Notes				
6.625%	March 2005	March 2045	March 2010	$ 116,250
6.875%	November 2010	November 2059	November 2015	225,000
7.0%	March 2011	March 2060	March 2016	300,000
5.875%	November 2012	December 2061	December 2017	195,000
U.S. Cellular:				
Unsecured Senior Notes				
6.7%	December 2003 and June 2004	December 2033	December 2003	$ 544,000
6.95%	May 2011	May 2060	May 2016	342,000

(1) U.S. Cellular may redeem the 6.7% Senior Notes, in whole or in part, at any time prior to maturity at a redemption price equal to the greater of (a) 100% of the principal amount of such notes, plus accrued and unpaid interest, or (b) the sum of the present values of the

remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semi-annual basis at the Treasury Rate plus 30 basis points. TDS may redeem its callable notes and U.S. Cellular may redeem its 6.95% Senior Notes, in whole or in part at any time after the respective call date, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest.

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TDS and its subsidiaries' long-term debt and indentures do not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in TDS' credit rating. However, a downgrade in TDS' credit rating could adversely affect its ability to obtain long-term debt financing in the future. TDS believes it and its subsidiaries were in compliance as of December 31, 2012 with all covenants and other requirements set forth in long-term debt indentures. TDS and U.S. Cellular have not failed to make nor do they expect to fail to make any scheduled payment of principal or interest under such indentures.

The long-term debt principal payments due for the next five years represent less than 1% of the total long-term debt obligation at December 31, 2012. Refer to Market Risk Long-Term Debt for additional information regarding required principal payments and the weighted average interest rates related to TDS' long-term debt.

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

TDS and U.S. Cellular each have effective shelf registration statements on Form S-3 that may be used to issue senior debt securities. The proceeds from any such issuances may be used for general corporate purposes, including to finance the redemption of any of the above existing debt. The TDS shelf registration statement is an automatic shelf registration that permits TDS to issue at any time and from time to time senior debt securities in one or more offerings in an indeterminate amount. The U.S. Cellular shelf registration statement permits U.S. Cellular to issue at any time and from time to time senior debt securities in one or more offerings up to an aggregate principal amount of $500 million. The ability of TDS or U.S. Cellular to complete an offering pursuant to such shelf registration statements is subject to market conditions and other factors at the time.

Capital Expenditures

U.S. Cellular's capital expenditures for 2013 are expected to be approximately $600 million. These expenditures are expected to be for the following general purposes:

- Expand and enhance U.S. Cellular's network coverage in its service areas, including providing additional capacity to accommodate increased network usage, principally data usage, by current customers;
- Continue to deploy 4G LTE technology in certain markets;
- Enhance U.S. Cellular's retail store network;
- Develop and enhance office systems; and
- Develop new billing and other customer management related systems and platforms.

TDS Telecom's anticipated capital expenditures for 2013 are expected to be approximately $155 million. These expenditures are expected to be for the following general purposes:

- Process and productivity initiatives;

Increased network and product capabilities for broadband services;

Expansion of IPTV;

Success-based spending to sustain managedIP and IPTV growth;

Development of HMS products and services; and

Fund its share for projects approved under the Recovery Act.

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TDS plans to finance its capital expenditure programs for 2013 using primarily cash flows from operating activities, and as necessary, existing cash balances and short-term investments.

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 investment. As part of this strategy, TDS reviews attractive opportunities to acquire additional wireless operating markets, telecommunications companies, wireless spectrum, HMS businesses, cable businesses and other possible lines of business. In addition, TDS may seek to divest outright or include in exchanges for other interests those interests that are not strategic to its long-term success.

TDS also may be engaged from time to time in negotiations relating to the acquisition, divestiture or exchange of companies, strategic properties, wireless spectrum and other possible businesses. In general, TDS may not disclose such transactions until there is a definitive agreement. See "Divestiture Transaction" above in this Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 7 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for details on significant transactions in 2012 and 2011.

Variable Interest Entities

TDS consolidates certain entities because they are "variable interest entities" under accounting principles generally accepted in the United States of America ("GAAP"). See Note 5 Variable Interest Entities in the Notes to Consolidated Financial Statements for the details of these variable interest entities. TDS may elect to make additional capital contributions and/or advances to these variable interest entities in future periods in order to fund their operations.

Share Repurchase Programs

TDS and U.S. Cellular have repurchased their Common Shares, subject to their repurchase programs. U.S. Cellular expects to continue to repurchase its Common Shares, subject to the repurchase program. The TDS repurchase program expired in November 2012. TDS determines whether to repurchase shares from time to time based on many considerations, including cash needed for other known or possible requirements, the stock price, market conditions, debt rating considerations, business forecasts, business plans, macroeconomic conditions, share issuances under compensation plans, provisions in governing and legal documents and other legal requirements and other facts and circumstances. Subject to these considerations, TDS may approve the repurchase of its shares from time to time when circumstances warrant. For additional information related to repurchases made during 2012, 2011 and 2010 and to the U.S. Cellular repurchase authorization, see Note 15 Common Shareholders' Equity in the Notes to Consolidated Financial Statements.

On January 13, 2012, TDS shareholders approved a Share Consolidation Amendment to the Restated Certificate of Incorporation of TDS. See Note 15 Common Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information.

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Contractual and Other Obligations

At December 31, 2012, the resources required for contractual obligations were as follows:

		Payments Due by Period			
(Dollars in millions)	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Long-term debt obligations(1)	$ 1,729.8	$ 1.1	$ 2.6	$ 2.8	$ 1,723.3
Interest payments on long-term debt obligations	4,452.2	116.1	232.1	231.9	3,872.1
Operating leases(2)	1,427.5	171.4	266.3	179.1	810.7
Capital leases	9.4	0.6	1.2	1.2	6.4
Purchase obligations(3)(4)	1,040.3	564.6	290.2	120.7	64.8
	$ 8,659.2	$ 853.8	$ 792.4	$ 535.7	$ 6,477.3

(1) Includes current and long-term portions of debt obligations. The total long-term debt obligation differs from Long-term debt in the Consolidated Balance Sheet due to capital leases and the $11.8 million unamortized discount related to U.S. Cellular's 6.7% Senior Notes. See Note 12 Debt in the Notes to Consolidated Financial Statements for additional information.

(2) Includes future lease costs related to office space, retail sites, cell sites and equipment. See Note 14 Commitments and Contingencies in the Notes to Consolidated Financial Statements for additional information.

(3) Includes obligations payable under non-cancellable contracts, commitments for network facilities and services, agreements for software licensing and long-term marketing programs. As described more fully in the "Divestiture Transaction" section of Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 7 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements, U.S. Cellular expects to incur network-related exit costs in the Divestiture Markets as a result of the transaction, including: (i) costs to decommission cell sites and mobile telephone switching office ("MTSO") sites, (ii) costs to terminate real property leases and (iii) costs to terminate certain network access arrangements in the subject markets. The impacts of these exit activities on TDS' purchase obligation are reflected in the table above only to the extent that agreements were consummated at December 31, 2012.

(4) Does not include reimbursable amounts TDS Telecom will provide to complete projects under the American Recovery and Reinvestment Act of 2009. TDS Telecom will receive $105.1 million in federal grants and will provide $30.9 million of its own funds to complete 44 projects. As of December 31, 2012, TDS Telecom has expended $15.8 million of the $30.9 million on these projects. Under the terms of the grants, the projects must be completed by June of 2015.

The table above excludes liabilities related to "unrecognized tax benefits" as defined by GAAP because TDS is unable to predict the period of settlement of such liabilities. Such unrecognized tax benefits were $28.4 million at December 31, 2012. See Note 4 Income Taxes in the Notes to Consolidated Financial Statements for additional information on unrecognized tax benefits.

Agreements

See Agreements in Note 14 Commitments and Contingencies in the Notes to Consolidated Financial Statements.

Off-Balance Sheet Arrangements

TDS had no transactions, agreements or other contractual arrangements with unconsolidated entities involving "off-balance sheet arrangements," as defined by Securities and Exchange Commission ("SEC") rules, that had or are reasonably likely to have a material current or future effect on its financial

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condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Dividends

TDS paid quarterly dividends per outstanding share of $0.1225 in 2012, $0.1175 in 2011 and $0.1125 in 2010. These dividends per share amounts for 2011 and 2010 have not been retroactively adjusted to reflect the impact of the Share Consolidation Amendment. See Note 15 Common Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information. TDS has no current plans to change its policy of paying dividends.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Goodwill and Licenses

See the Goodwill and Licenses Impairment Assessment section of Note 1 Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for information on Goodwill and Licenses impairment testing policies and methods.

See Note 8 Intangible Assets in the Notes to Consolidated Financial Statements for additional information related to Goodwill and Licenses activity in 2012 and 2011.

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.

Goodwill

U.S. Cellular

U.S. Cellular tests Goodwill for impairment at the level of reporting referred to as a "reporting unit." For purposes of impairment testing of Goodwill in 2012, U.S. Cellular identified five reporting units based on geographic service areas (all of which are included in TDS' wireless reportable operating segment). There were no changes to U.S. Cellular's reporting units or to U.S. Cellular's overall Goodwill impairment testing methodology between November 1, 2012 and November 1, 2011.

A discounted cash flow approach was used to value each reporting unit, using value drivers and risks specific to the industry and current economic factors. The cash flow estimates incorporated assumptions that market participants would use in their estimates of fair value and may not be indicative of U.S. Cellular specific assumptions. The most significant assumptions made in this process were the revenue growth rate, the long-term and terminal revenue growth rate, discount rate and projected capital expenditures. Also, discounted cash flows related to the Central Region exclude projected cash flows associated with the Divestiture Markets, as the assets associated with such markets, including Goodwill, were excluded from the carrying value of the Central Region reporting unit for purposes of conducting

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the Goodwill impairment test as of November 1, 2012. These assumptions were as follows for November 1, 2012 and 2011:

Key Assumptions		November 1, 2012		November 1, 2011
Weighted-average expected revenue growth rate (next five years)		2.4%		3.6%
Weighted-average long-term and terminal revenue growth rate (after year five)		2.0%		2.0%
Discount rate		11.0%		10.5%
Average annual capital expenditures (millions)	$	559	$	609

The decrease in the weighted-average expected revenue growth rate for the next five years was due to a decrease in projected customer penetration growth rate of market participants. In spite of lower overall market interest rates, the discount rate used to estimate cash flows increased from 10.5% in November 2011 to 11.0% in November 2012 due to a shift toward more equity in the representative capital structure of market participants.

The carrying value of each U.S. Cellular reporting unit at TDS as of November 1, 2012, as impacted for the Divestiture Transaction, was as follows:

Reporting Unit (Dollars in millions)		Carrying Value at TDS(1)
Central Region(2)	$	215
Mid-Atlantic Region		788
New England Region		268
New York Region(3)		172
Northwest Region		344
Total	$	1,787

(1) Under previous business combination guidance in effect prior to January 1, 2009, TDS had recorded Goodwill as a result of accounting for U.S. Cellular's purchases of U.S. Cellular Common Shares as step acquisitions using purchase accounting. As a result, the carrying values of the reporting units differ between U.S. Cellular and TDS. The carrying value of the reporting units at U.S. Cellular was $1,870 million at November 1, 2012.

(2) Excludes $160 million of Goodwill and Licenses of Divestiture Markets, which is classified as Assets held for sale at December 31, 2012 and was tested separately for impairment.

(3) Operated by Verizon Wireless.

As of November 1, 2012, the fair values of the reporting units exceeded their respective carrying values by amounts ranging from 19% to 166% of the respective carrying values. Therefore, no impairment of Goodwill existed. Given that the fair values of the respective reporting units exceed their respective carrying values, provided all other assumptions remained the same, the discount rate would have to increase to a range of 12.4% to 14.2% to yield estimated fair values of reporting units that equal their respective carrying values at November 1, 2012. Further, assuming all other assumptions remained the same, the terminal growth rate assumptions would need to decrease to negative amounts, ranging from negative 9.0% to negative 1.3%, to yield estimates of fair value equal to the carrying values of the respective reporting units at November 1, 2012.

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TDS Telecom

TDS Telecom has recorded Goodwill as a result of the acquisition of ILEC companies and HMS companies. For purposes of the annual impairment testing, TDS Telecom has four reporting units: one reporting unit within its ILEC reportable operating segment and three reporting units within its HMS reportable operating segment. For purposes of its annual impairment testing of Goodwill, as of November 1, 2011, TDS Telecom identified two reporting units within its ILEC reportable operating segment. TDS Telecom's change in reporting units resulted from additional acquisitions and TDS' reevaluation of its reportable business segments, more fully described in Note 1 Summary of Significant Accounting Policies and Recent Accounting Pronouncements. TDS Telecom's overall Goodwill impairment testing methodology changed between November 1, 2012 and November 1, 2011. Over time, the historical companies used by TDS ILEC as peers have added additional lines of business to their traditional wireline activities, predominately either HMS or CLEC operations. As TDS Telecom has separated their HMS and CLEC operations into different segments and therefore different reporting units, the peer group operations are not as comparable to TDS ILEC operations as they were in prior years. In the fourth quarter of 2012, management added the discounted cash flow approach as an additional method to address this development.

In 2012, the discounted cash flow approach and publicly-traded guideline company method were used to value the ILEC and each of the HMS reporting units. The discounted cash flow approach uses value drivers and risks specific to the industry and current economic factors. The cash flow estimates incorporated assumptions that market participants would use in their estimates of fair value and may not be indicative of TDS Telecom specific assumptions. The most significant assumptions made in this process were the revenue growth rate, the long-term and terminal revenue growth rate, discount rate and projected capital expenditures. These assumptions were as follows for November 1, 2012:

Key Assumptions	ILEC	HMS
Average expected revenue growth rate (next five years)	(0.4)%	8.5-23.0%
Average long-term and terminal revenue growth rate	%	1.5-3.0%
Discount rate	7.0%	11.0-13.0%
Capital expenditures as a percentage of revenue	12.5-16.9%	0.4-44.9%

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

In 2011, the publicly-traded guideline company method and recent transaction method were used to value the ILEC and HMS reporting units tested. The recent transaction method calculates market pricing multiples based upon recent acquisitions of similar businesses. In both the publicly-traded guideline company method and the recent transaction method, the developed multiples were applied to applicable financial measures of the respective reporting unit to determine fair value. Given the nature of this methodology, no specific consideration of the economic environment was considered since those factors would be inherent in the multiples used.

As of November 1, 2012, the fair value of the ILEC reporting unit exceeded its carrying value by 34% of its value. Therefore, no impairment of goodwill existed. Given that the fair value of the ILEC reporting unit exceeded its carrying value, provided all other assumptions remained the same, the discount rate would have to increase to 10.0% for the discounted cash flow approach to yield an estimated fair value of the ILEC reporting unit that equals its carrying value at November 1, 2012. Further, assuming all other assumptions remained the same, the long-term and terminal revenue growth rate assumption would

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need to decrease to negative 6.2%, for the discounted cash flow approach to yield an estimate of fair value equal to the carrying value of the ILEC reporting unit at November 1, 2012.

As of November 1, 2012 the fair values of the HMS reporting units exceeded their respective carrying values by amounts ranging from 5% to 76% of the respective carrying values. Therefore, no impairment of Goodwill existed. Given that the fair values of the respective reporting units exceed their respective carrying values, provided all other assumptions remained the same, the discount rate would have to increase to a range of 11.8% to 15.3% for the discounted cash flow approach to yield estimated fair values of the HMS reporting units that equal their respective carrying values at November 1, 2012. Further, assuming all other assumptions remained the same, the long-term and terminal revenue growth rate assumptions would need to decrease to amounts ranging from positive 0.6% to negative 2.8%, for the discounted cash flow approach to yield estimates of fair value equal to the carrying values of the respective HMS reporting units at November 1, 2012.

Licenses

U.S. Cellular tests licenses for impairment at the level of reporting referred to as a "unit of accounting." For purposes of its impairment testing of licenses as of November 1, 2012, U.S. Cellular separated its FCC licenses into thirteen units of accounting based on geographic service areas. As of November 1, 2011, U.S. Cellular separated its FCC licenses into twelve units of accounting based on geographic service areas. In both 2012 and 2011 testing, seven of the units of accounting represented geographic groupings of licenses which, because they were not being utilized and, therefore, were not expected to generate cash flows from operating activities in the foreseeable future, were considered separate units of accounting for purposes of impairment testing.

Developed operating market licenses ("built licenses")

U.S. Cellular applies the build-out method to estimate the fair values of built licenses. The most significant assumptions applied for purposes of the November 1, 2012 and 2011 licenses impairment assessments were as follows:

Key Assumptions	**November 1, 2012**	**November 1, 2011**
Build-out period	7 years	7 years
Discount rate	8.5%	9.0%
Long-term EBITDA margin	33.9%	32.2%
Long-term capital expenditure requirement (as a % of service revenue)	14.5%	13.0%
Long-term service revenue growth rate	2.0%	2.0%
Customer penetration rates	13-17%	11-16%

The discount rate used to estimate the fair value of built licenses was based on market participant capital structures, participant risk profiles, market conditions and risk premium assumptions. The decline from 9.0% in November 2011 to 8.5% in November 2012 primarily reflects the general decline in market interest rates during that period as well as revised cash flow assumptions based on forecasts of market participants.

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

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

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The results of the licenses impairment test at November 1, 2012 did not result in the recognition of a loss on impairment. Given that the fair values of the licenses exceed their respective carrying values, the discount rate would have to increase to a range of 8.6% to 9.1% to yield estimated fair values of licenses in the respective units of accounting that equal their respective carrying values at November 1, 2012. An increase of 10 basis points to the assumed discount rate would cause less than a $6 million impairment whereas an increase of 50 basis points would cause an impairment of approximately $36 million.

Non-operating market licenses ("unbuilt licenses")

For purposes of performing impairment testing of unbuilt licenses, U.S. Cellular prepares estimates of fair value by reference to prices paid in recent auctions and market transactions where available. If such information is not available, the fair value of the unbuilt licenses is assumed to have changed by the same percentage, and in the same direction, that the fair value of built licenses measured using the build-out method changed during the period. There was no impairment loss recognized related to unbuilt licenses as a result of the November 1, 2012 licenses impairment test.

Carrying Value of Licenses

The carrying value of licenses at November 1, 2012 was as follows:

Unit of Accounting(1) **(Dollars in millions)**		**Carrying Value**
U.S. Cellular Developed Operating markets (6 units of accounting)		
Central Region	$	693
Licenses to be transferred to Assets held for sale as a result of the Divestiture Transaction		141
Mid-Atlantic Region		228
New England Region		108
Northwest Region		67
New York Region(2)		1
U.S. Cellular Non-operating markets (7 units of accounting)		
North Northwest (2 states)		3
South Northwest (2 states)		2
North Central (5 states)		51
South Central (5 states)		24
East Central (5 states)		127
Mid-Atlantic (8 states)		50
Mississippi Valley (13 states)		43
Total(3)	$	1,538
TDS Telecom		3
Airadigm(4)		15
Total(5)	$	1,556

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

(2) Operated by Verizon Wireless.

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(3) Under previous business combination guidance in effect prior to January 1, 2009, TDS had recorded licenses as a result of accounting for U.S. Cellular's purchases of U.S. Cellular Common Shares as step acquisitions using purchase accounting. As a result, the carrying values of the units of accounting for the developed operating markets differ between U.S. Cellular and TDS. The total carrying value of all units of accounting at U.S. Cellular was $1,532 million at November 1, 2012.

(4) TDS acquired 63% of Airadigm on September 23, 2011. See Note 7 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information on Airadigm.

(5) Between November 1, 2012 and December 31, 2012, TDS reclassified licenses to Assets held for sale as a result of the Divestiture Transaction in the amount of $140.6 million, obtained licenses through acquisitions in the amount of $64.2 million and capitalized interest on certain licenses pursuant to current network build-outs in the amount of $0.8 million.

Licenses with an aggregate carrying value of $70.2 million were in units of accounting where the fair value exceeded the carrying value by amounts less than 10% of the carrying value. Any further declines in the fair value of such licenses in future periods could result in the recognition of impairment losses on such licenses and any such impairment losses would have a negative impact on future results of operations. The impairment losses on licenses are not expected to have a future impact on liquidity. TDS is unable to predict the amount, if any, of future impairment losses attributable to licenses. Further, historical operating results, particularly amounts related to impairment losses, are not indicative of future operating results.

Income Taxes

The amounts of income tax assets and liabilities, the related income tax provision and the amount of unrecognized tax benefits are critical accounting estimates because such amounts are significant to TDS' financial condition and results of operations.

The preparation of the consolidated financial statements requires TDS to calculate a provision for income taxes. This process involves estimating the actual current income tax liability together with assessing temporary differences resulting from the different treatment of items for tax purposes. These temporary differences result in deferred income tax assets and liabilities, which are included in TDS' Consolidated Balance Sheet. TDS must then assess the likelihood that deferred income tax assets will be realized based on future taxable income and, to the extent management believes that realization is not likely, establish a valuation allowance. Management's judgment is required in determining the provision for income taxes, deferred income tax assets and liabilities and any valuation allowance that is established for deferred income tax assets.

TDS recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

See Note 4 Income Taxes in the Notes to Consolidated Financial Statements for details regarding TDS' income tax provision, deferred income taxes and liabilities, valuation allowances and unrecognized tax benefits, including information regarding estimates that impact income taxes.

Loyalty Reward Program

See the Revenue Recognition U.S. Cellular section of Note 1 Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for a description of this program and the related accounting.

U.S. Cellular follows the deferred revenue method of accounting for its loyalty reward program. Under this method, revenue allocated to loyalty reward points is fully deferred as U.S. Cellular does not yet have sufficient historical data in which to estimate any portion of loyalty reward points that will not be

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redeemed. Revenue is recognized at the time of customer redemption or when such points have been depleted via a maintenance charge. U.S. Cellular periodically reviews and will revise the redemption and depletion rates as appropriate based on history and related future expectations.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See Note 19 Certain Relationships and Related Transactions in the Notes to Consolidated Financial Statements.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

SAFE HARBOR CAUTIONARY STATEMENT

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain statements that are not based on historical facts, including the words "believes," "anticipates," "intends," "expects" and similar words. These statements constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the following risks:

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

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

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

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

- *An inability to obtain or maintain roaming arrangements with other carriers on terms that are acceptable to TDS could have an adverse effect on TDS' business, financial condition or results of operations.*

- *TDS currently receives a significant amount of roaming revenues from its wireless business. Further consolidation within the wireless industry, continued network build-outs by other wireless carriers and/or the inability to negotiate 4G LTE roaming agreements with other operators could cause roaming revenues to decline from current levels, which would have an adverse effect on TDS' business, financial condition and results of operations.*

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

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

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

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

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

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

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

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

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

Complexities associated with deploying new technologies present substantial risk.

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

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

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

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

TDS' investments in technologies which are unproven may not produce the benefits that TDS expects.

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

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

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

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

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

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

Identification of errors in financial information or disclosures could require amendments to or restatements of financial information or disclosures included in this or prior filings with the Securities

Telephone and Data Systems, Inc.

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

and Exchange Commission ("SEC"). Such amendments or restatements and related matters, including resulting delays in filing periodic reports with the SEC, could have an adverse effect on TDS' business, financial condition or results of operations.

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

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

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

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

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

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

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

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

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

See "Risk Factors" in TDS' Annual Report on Form 10-K for the year ended December 31, 2012 for a further discussion of these risks. TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Readers should evaluate any statements in light of these important factors.

Telephone and Data Systems, Inc.

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

MARKET RISK

Long-Term Debt

As of December 31, 2012, the majority of TDS' long-term debt was in the form of fixed-rate notes with original maturities ranging up to 49 years. Fluctuations in market interest rates can lead to significant fluctuations in the fair value of these fixed-rate notes.

The following table presents the scheduled principal payments on long-term debt and capital lease obligations, and the related weighted average interest rates by maturity dates at December 31, 2012:

	Principal Payments Due by Period	
(Dollars in millions)	Long-Term Debt Obligations(1)	Weighted-Avg. Interest Rates on Long-Term Debt Obligations(2)
2013	$ 1.2	4.4%
2014	1.6	4.6%
2015	1.2	2.5%
2016	3.0	4.6%
2017	0.2	9.7%
After 5 years	1,727.4	6.7%
Total	$ 1,734.6	6.7%

(1) The total long-term debt obligation differs from Long-term debt in the Consolidated Balance Sheet due to the $11.8 million unamortized discount related to U.S. Cellular's 6.7% Senior Notes. See Note 12 Debt in the Notes to Consolidated Financial Statements for additional information.

(2) Represents the weighted average interest rates at December 31, 2012, for debt maturing in the respective periods.

Fair Value of Long-Term Debt

At December 31, 2012 and 2011, the estimated fair value of long-term debt obligations, excluding capital lease obligations and the current portion of such long-term debt, was $1,827.6 million and $1,586.9 million, respectively. The fair value of long-term debt, excluding capital lease obligations and the current portion of such long-term debt, was estimated using market prices for TDS' 7.0% Senior Notes, 6.875% Senior Notes, 6.625% Senior Notes, and 5.875% Senior Notes, and U.S. Cellular's 6.95% Senior Notes at December 31, 2012 and TDS' 7.0% Senior Notes, 6.875% Senior Notes, and 6.625% Senior Notes, and U.S. Cellular's 6.95% Senior Notes at December 31, 2011 and discounted cash flow analysis for U.S. Cellular's 6.7% Senior Notes and the remaining debt at December 31, 2012 and 2011.

Other Market Risk Sensitive Instruments

The substantial majority of TDS' other market risk sensitive instruments (as defined in item 305 of SEC Regulation S-K) are short-term, including Cash and cash equivalents and Short-term investments. The fair value of such instruments is less sensitive to market fluctuations than longer term instruments. Accordingly, TDS believes that a significant change in interest rates would not have a material effect on such other market risk sensitive instruments.

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Consolidated Statement of Operations

Year Ended December 31, (Dollars and shares in thousands, except per share amounts)	2012	2011	2010
Operating revenues	$ 5,345,277	$ 5,180,471	$ 4,986,829
Operating expenses			
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	2,272,570	2,050,644	1,924,863
Selling, general and administrative expense	2,033,901	2,002,359	1,998,463
Depreciation, amortization and accretion expense	813,626	765,776	755,649
Loss on impairment of assets	515		
(Gain) loss on asset disposals and exchanges, net	19,741	(810)	11,763
(Gain) loss on sale of business and other exit costs, net	21,061		
Total operating expenses	5,161,414	4,817,969	4,690,738
Operating income	183,863	362,502	296,091
Investment and other income (expense)			
Equity in earnings of unconsolidated entities	92,867	82,538	98,074
Interest and dividend income	9,248	9,145	10,508
Gain (loss) on investment	(3,718)	24,103	
Interest expense	(86,745)	(118,201)	(116,810)
Other, net	720	3,658	(2,089)
Total investment and other income (expense)	12,372	1,243	(10,317)
Income before income taxes	196,235	363,745	285,774
Income tax expense	73,582	113,503	95,188
Net income	122,653	250,242	190,586
Less: Net income attributable to noncontrolling interests, net of tax	(40,792)	(49,676)	(45,737)
Net income attributable to TDS shareholders	81,861	200,566	144,849
Preferred dividend requirement	(50)	(50)	(50)
Net income available to common	$ 81,811	$ 200,516	$ 144,799
Basic weighted average shares outstanding	108,671	108,562	110,016
Basic earnings per share attributable to TDS shareholders	$ 0.75	$ 1.85	$ 1.32
Diluted weighted average shares outstanding	108,937	109,098	110,488
Diluted earnings per share attributable to TDS shareholders	$ 0.75	$ 1.83	$ 1.31
Dividends per share	$ 0.49	$ 0.47	$ 0.45

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

Year Ended December 31, (Dollars in thousands)	**2012**	**2011**	**2010**
Net income	$ 122,653	$ 250,242	$ 190,586
Net change in accumulated other comprehensive income			
Change in net unrealized gain (loss) on equity investments	49	138	84
Change in foreign currency translation adjustment	4		
Change related to retirement plan			
Amounts included in net periodic benefit cost for the period			
Net actuarial gains (losses)	90	(9,625)	1,180
Amortization of prior service cost	(3,735)	(3,815)	(3,815)
Amortization of unrecognized net loss	2,517	1,934	2,158
	(1,128)	(11,506)	(477)
Change in deferred income taxes	1,797	5,722	(105)
Change related to retirement plan, net of tax	669	(5,784)	(582)
Net change in accumulated other comprehensive income	722	(5,646)	(498)
Comprehensive income	123,375	244,596	190,088
Less: Comprehensive income attributable to noncontrolling interest	(40,792)	(49,676)	(45,737)
Comprehensive income attributable to TDS shareholders	$ 82,583	$ 194,920	$ 144,351

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

Year Ended December 31, (Dollars in thousands)	2012	2011	2010
Cash flows from operating activities			
Net income	$ 122,653	$ 250,242	$ 190,586
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities			
Depreciation, amortization and accretion	813,626	765,776	755,649
Bad debts expense	74,695	68,611	83,098
Stock-based compensation expense	41,871	36,837	35,128
Deferred income taxes, net	58,785	202,547	76,391
Equity in earnings of unconsolidated entities	(92,867)	(82,538)	(98,074)
Distributions from unconsolidated entities	84,884	92,231	100,845
Loss on impairment of assets	515		
(Gain) loss on asset disposals and exchanges, net	19,741	(810)	11,763
(Gain) loss on sale of business and other exit costs, net	21,061		
(Gain) loss on investment	3,718	(24,103)	
Noncash interest expense	(572)	18,849	9,733
Other operating activities	1,393	1,067	383
Changes in assets and liabilities from operations			
Accounts receivable	(81,107)	(95,426)	(79,182)
Inventory	(29,917)	(13,382)	40,657
Accounts payable	(12,332)	29,291	(47,759)
Customer deposits and deferred revenues	32,981	35,457	6,478
Accrued taxes	77,458	(27,871)	(95,284)
Accrued interest	(891)	3,351	(7,680)
Other assets and liabilities	(30,523)	(4,418)	93,475
	1,105,172	1,255,711	1,076,207
Cash flows from investing activities			
Cash used for additions to property, plant and equipment	(995,517)	(971,759)	(739,222)
Cash paid for acquisitions and licenses	(163,382)	(105,508)	(81,691)
Cash paid for investments	(120,000)	(180,920)	(493,750)
Cash received for divestitures	50,182		
Cash received for investments	243,444	393,246	106,255
Other investing activities	(12,796)	(1,148)	370
	(998,069)	(866,089)	(1,208,038)
Cash flows from financing activities			
Repayment of short-term debt		(32,671)	
Repayment of long-term debt	(2,566)	(614,639)	(220,249)
Issuance of long-term debt	195,358	643,700	225,648
TDS Common Shares and Special Common Shares reissued for benefit plans, net of tax payments	(1,119)	32	309
U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	(2,205)	1,935	509
Repurchase of TDS Common and Special Common Shares	(20,026)	(21,500)	(68,053)
Repurchase of U.S. Cellular Common Shares	(20,045)	(62,294)	(52,827)
Dividends paid	(53,165)	(48,670)	(47,202)
Payment of debt issuance costs	(8,242)	(21,657)	(12,533)
Distributions to noncontrolling interests	(20,856)	(16,236)	(19,630)
Payments to acquire additional interest in subsidiaries	(3,167)		(9,248)
Other financing activities	6,136	3,970	2,321

	70,103	(168,030)	(200,955)
Net increase (decrease) in cash and cash equivalents	177,206	221,592	(332,786)
Cash and cash equivalents			
Beginning of period	563,275	341,683	674,469
End of period	$ 740,481	$ 563,275	$ 341,683

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

December 31, (Dollars in thousands)		**2012**		**2011**
Current assets				
Cash and cash equivalents	$	740,481	$	563,275
Short-term investments		115,700		246,273
Accounts receivable				
Due from customers, less allowances of $28,152 and $25,738, respectively				