

TELEPHONE & DATA SYSTEMS INC /DE/
Form DEFA14A
May 02, 2014

UNITED STATES							
SECURITIES AND EXCHANGE COMMISSION							
Washington, D.C. 20549							
SCHEDULE 14A							
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)							
<input type="checkbox"/> Filed by the Registrant x <input type="checkbox"/> Filed by a Party other than the Registrant "							
Check the appropriate box:							
<input type="checkbox"/>	Preliminary Proxy Statement						
<input type="checkbox"/>	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))						
<input type="checkbox"/>	Definitive Proxy Statement						
<input checked="" type="checkbox"/>	Definitive Additional Materials						
<input type="checkbox"/>	Soliciting Material Pursuant to §240.14a-12						
Telephone and Data Systems, Inc.							
(Name of Registrant as Specified In Its Charter)							
(Name of Person(s) Filing Proxy Statement, If other than the Registrant)							
Payment of Filing Fee (Check the appropriate box):							
<input checked="" type="checkbox"/>	No fee required.						
<input type="checkbox"/>	Fee computed on table below per Exchange Act Rules 14a 6(i)(1) and 0-11.						
	(1)	Title of each class of securities to which transaction applies:					
	(2)	Aggregate number of securities to which transaction applies:					
	(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0 11 (set forth the amount on which the filing fee is calculated and state how it was determined):					
	(4)	Proposed maximum aggregate value of transaction:					
	(5)	Total fee paid:					
<input type="checkbox"/>	Fee paid previously with preliminary materials.						
<input type="checkbox"/>	Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.						
	(1)	Amount Previously Paid:					

Edgar Filing: TELEPHONE & DATA SYSTEMS INC /DE/ - Form DEFA14A

		(2)	Form, Schedule or Registration Statement No.:
		(3)	Filing Party:
		(4)	Date Filed:

EXPLANATORY NOTE

The purpose of this Schedule 14A is to file a press release issued by Telephone and Data Systems, Inc. (“TDS”) on May 2, 2014 relating to earnings for the first quarter of 2014.

IMPORTANT INFORMATION: TDS and its directors, executive officers and other members of its management and employees may be deemed to be participants in the solicitation of proxies from the shareholders of TDS in connection with the TDS 2014 annual meeting of shareholders. Information regarding TDS directors and executive officers and other participants that may be soliciting proxies on behalf of the TDS board of directors and their respective interests in TDS by security holdings or otherwise is set forth in TDS’s definitive proxy statement relating to its 2014 annual meeting, as filed with the Securities and Exchange Commission (“SEC”) on April 18, 2014. The 2014 proxy statement, other solicitation material and other reports that TDS files with the SEC, when available, can be obtained free of charge at the SEC’s web site at www.sec.gov or from TDS as provided on its website at www.teldta.com. TDS SHAREHOLDERS ARE ADVISED TO READ CAREFULLY THE PROXY STATEMENT AND OTHER SOLICITATION MATERIAL FILED BY TDS IN CONNECTION WITH THE TDS 2014 ANNUAL MEETING OF SHAREHOLDERS BEFORE MAKING ANY VOTING DECISION BECAUSE THEY CONTAIN OR WILL CONTAIN IMPORTANT INFORMATION RELATING TO THE ELECTION OF DIRECTORS OF TDS.

Exhibit 99.1 NEWS RELEASE

As previously announced, TDS will hold a teleconference May 2, 2014 at 9:30 a.m. CDT. Interested parties may listen to the call live via the Events & Presentations page of investors.teldta.com.

FOR IMMEDIATE RELEASE

TDS reports first quarter 2014 results

CHICAGO, (May 2, 2014) — Telephone and Data Systems, Inc. (NYSE:TDS) reported operating revenues of \$1,196.0 million for the first quarter of 2014, versus \$1,308.6 million for the comparable period one year ago. Net income attributable to TDS shareholders and related diluted earnings per share were \$18.3 million and \$0.16 respectively, for the first quarter of 2014, compared to \$1.4 million and \$0.01, respectively, in the comparable period one year ago.

Year-over-year comparisons are affected by U.S. Cellular's divestiture transaction, the deconsolidation of certain U.S. Cellular partnerships, and acquisitions at TDS Telecom, in 2013.

"Our businesses made significant progress in the quarter to execute on their customer strategies and improve operating efficiency," said LeRoy T. Carlson, Jr., TDS president and CEO. "While we have considerable work to do to improve our financial and operating performance, I believe we're focused on the right areas.

"U.S. Cellular continues to attract new customers and drive smartphone adoption and data use, leading to higher average revenue per customer. Substantial progress has been made to restore high standards of service following the billing system conversion, and U.S. Cellular has already leveraged the system to deliver new services like our Shared

Connect Plans and no contract Simple Connect Plans.

“TDS Telecom increased average revenue per customer for both residential and commercial wireline customers, with higher-tier TDS TV packages and faster broadband speeds, and new *managed*IP plans. We also continued to improve the overall efficiency of the wireline business. Revenues increased 77 percent at OneNeck IT Solutions, our hosted and managed services business, driven by revenues from acquisitions and increased revenues for recurring services.

“As we continued to execute our integration and customer strategies for Baja Broadband, we also agreed to acquire Bend Broadband, a premier cable and broadband provider to residential and business customers in Central Oregon. BendBroadband’s high-capacity, all-digital network, technology leadership, and customer-centered approach will be tremendous assets as we develop a premier cable broadband business.”

2014 Estimated Results

U.S. Cellular capital expenditures for 2014 are expected to be approximately \$640 million, down from \$738 million in 2013.

TDS Telecom estimates for full-year 2014 results are shown below. Such estimates represent management's view as of May 2, 2014. 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 Telecom 2014 Estimated Results (1)		
		Current		Previous
(Dollars in millions)				
Operating revenues		\$1,050-\$1,100		Unchanged
Adjusted income before income taxes (2)		\$250-\$280		Unchanged
Capital expenditures		\$200		Unchanged

(1) These estimates do not reflect the effects of the acquisition of BendBroadband.

(2) Adjusted income before income taxes is defined as income before income taxes, adjusted for the items set forth in the reconciliation below. Adjusted income before income taxes excludes these items in order to show operating results on a more comparable basis from period to period. In addition, TDS may exclude other items from adjusted income before income taxes if such items help reflect operating results on a more comparable basis. TDS does not intend to imply that any such amounts that are excluded are non-recurring, infrequent or unusual; such amounts may occur in the future. Adjusted income before income taxes is not a measure of financial performance under Generally Accepted Accounting Principles in the United States ("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 useful measure of TDS' operating results before significant recurring non-cash charges, discrete gains and losses, and financing charges (interest expense). The following table provides a reconciliation of income before income taxes to adjusted income before income taxes for 2014 estimated results, three months ended March 31, 2014, and 2013 actual results:

		TDS Telecom				
				Actual Results		
		2014 Estimated Results		Three Months Ended		Year Ended

			March 31, 2014		December 31, 2013
(Dollars in millions)					
Income before income taxes	\$25-\$55		\$19		\$49
Depreciation, amortization and accretion expense	\$225		\$54		\$203
(Gain) loss on investments					(\$1)
Interest expense					(\$2)
Adjusted income before income taxes	\$250-\$280		\$73		\$249

Stock repurchase summary

TDS began repurchasing under its \$250 million repurchase authorization on Aug. 5, 2013. The following represents repurchases of TDS Common Shares.

Repurchase Period	# Shares	Cost (in millions)	
2014 (first quarter)	157,891	\$ 3.8	
2013 (full year)	338,851	\$ 9.7	
Total	496,742	\$ 13.5	

Conference Call Information

TDS will hold a conference call on May 2, 2014 at 9:30 a.m. CST.

- Access the live call on the Events & Presentations page of investors.teldta.com or at <http://www.videonewswire.com/event.asp?id=99006>.
- Access the call by phone at 877-407-8029 (US/Canada), no pass code required.

Before the call, certain financial and statistical information to be discussed during the call will be posted to investors.teldta.com. The call will be archived on the Events & Presentations page of investors.teldta.com.

About TDS

Telephone and Data Systems, Inc. (TDS), a Fortune 500® company, provides wireless; cable and wireline broadband, TV and voice; and hosted and managed services to approximately 5.8 million customers nationwide through its business units, U.S. Cellular, TDS Telecom, OneNeck IT Solutions and Baja Broadband. Founded in 1969 and headquartered in Chicago, TDS employed 10,600 people as of March 31, 2014.

Visit www.teldta.com for comprehensive financial information, including earnings releases, quarterly and annual filings, shareholder information and more.

Contacts

Jane McCahon, Vice President, Corporate Relations and Corporate Secretary

312- 592-5379

jane.mccahon@teldta.com

Julie Mathews, Investor Relations Manager

312- 592-5341

julie.mathews@teldta.com

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995: All information set forth in this news release, except historical and factual information, represents forward-looking statements. This includes all statements about the company's plans, beliefs, estimates, and expectations. These statements are based on current estimates, projections, and assumptions, which involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Important factors that may affect these forward-looking statements include, but are not limited to: impacts of any pending acquisition and divestiture transactions, including, but not limited to, the ability to obtain regulatory approvals, successfully complete the transactions and the financial impacts of such transactions; the ability of the company to successfully manage and grow its markets; the overall economy; competition; the access to and pricing of unbundled network elements; the ability to obtain or maintain roaming arrangements with other carriers on acceptable terms; the state and federal telecommunications regulatory environment; the value of assets and investments; adverse changes in the ratings afforded TDS and U.S. Cellular debt securities by accredited ratings organizations; industry consolidation; advances in telecommunications technology; uncertainty of access to the capital markets; pending and future litigation; changes in income tax rates, laws, regulations or rulings; acquisitions/divestitures of properties and/or licenses; changes in customer growth rates, average monthly revenue per user, churn rates, roaming revenue and terms, the availability of handset devices, or the mix of products and services offered by U.S. Cellular and TDS Telecom. Investors are encouraged to consider these and other risks and uncertainties that are discussed in the Form 8-K Current Report used by TDS to furnish this press release to the Securities and Exchange Commission ("SEC"), which are incorporated by reference herein.

For more information about TDS and its subsidiaries, visit:

TDS: www.teldta.com

U.S. Cellular: www.uscellular.com

TDS Telecom: www.tdstelecom.com

OneNeck IT Solutions: www.oneneck.com

United States Cellular Corporation											
Total Markets* Summary Operating Data (Unaudited)											
As of or for the Quarter Ended		3/31/2014		12/31/2013		9/30/2013		6/30/2013		3/31/2013	
Retail Customers											
Postpaid											
	Total at end of period		4,174,000		4,267,000		4,343,000		4,412,000		5,060,000
	Gross additions		197,000		176,000		165,000		165,000		191,000
	Net additions (losses)		(93,000)		(71,000)		(60,000)		(120,000)		(74,000)
	ARPU (1)	\$	57.59	\$	53.53	\$	54.64	\$	54.18	\$	54.85
	Churn rate (2)		2.3%		1.9%		1.7%		2.0%		1.7%
	Smartphone penetration (3) (4)		53.1%		50.8%		47.1%		45.5%		43.5%
Prepaid											
	Total at end of period		356,000		343,000		370,000		381,000		446,000
	Gross additions		85,000		63,000		65,000		77,000		104,000
	Net additions (losses)		13,000		(26,000)		(11,000)		(7,000)		23,000
	ARPU (1)	\$	32.22	\$	31.66	\$	28.72	\$	31.69	\$	33.31
	Churn rate (2)		6.9%		8.3%		6.8%		6.8%		6.2%
Total customers at end of period			4,684,000		4,774,000		4,875,000		4,968,000		5,736,000
Billed ARPU (1)		\$	53.93	\$	50.25	\$	50.92	\$	50.60	\$	51.13
Service revenue ARPU (1)		\$	60.19	\$	57.05	\$	58.36	\$	57.45	\$	57.63
Smartphones sold as a percent of total devices sold			73.0%		79.6%		65.2%		66.0%		61.7%
Total population											
	Consolidated markets (5)		54,817,000		58,013,000		84,025,000		84,025,000		93,943,000
	Consolidated operating markets (5)		31,729,000		31,759,000		31,822,000		31,822,000		47,440,000
Market penetration at end of period			8.5%		8.2%		5.8%		5.9%		6.1%

United States Cellular Corporation											
Core* Markets Summary Operating Data (Unaudited)											
As of or for the Quarter Ended		3/31/2014		12/31/2013		9/30/2013		6/30/2013		3/31/2013	
Retail Customers											
Postpaid											
	Total at end of period		4,174,000		4,267,000		4,343,000		4,412,000		4,463,000
	Gross additions		197,000		176,000		165,000		165,000		176,000
	Net additions (losses)		(93,000)		(71,000)		(60,000)		(53,000)		(33,000)
	ARPU (1)	\$	57.59	\$	53.53	\$	54.64	\$	54.44	\$	54.21
	Churn rate (2)		2.3%		1.9%		1.7%		1.6%		1.6%
	Smartphone penetration (3) (4)		53.1%		50.8%		47.1%		45.5%		43.0%
Prepaid											
	Total at end of period		356,000		343,000		370,000		381,000		373,000
	Gross additions		85,000		63,000		65,000		76,000		91,000
	Net additions (losses)		13,000		(26,000)		(11,000)		8,000		31,000
	ARPU (1)	\$	32.22	\$	31.66	\$	28.72	\$	31.65	\$	32.92
	Churn rate (2)		6.9%		8.3%		6.8%		6.0%		5.6%
Total customers at end of period			4,684,000		4,774,000		4,875,000		4,968,000		5,005,000
Billed ARPU (1)		\$	53.93	\$	50.25	\$	50.92	\$	50.98	\$	50.93
Service revenue ARPU (1)		\$	60.19	\$	57.05	\$	58.36	\$	57.88	\$	57.14
Smartphones sold as a percent of total devices sold			73.0%		79.6%		65.2%		66.1%		62.1%
Total population											
	Consolidated markets (5)		54,817,000		58,013,000		84,025,000		84,025,000		84,025,000
	Consolidated operating markets (5)		31,729,000		31,759,000		31,822,000		31,822,000		31,822,000
Market penetration at end of period			8.5%		8.2%		5.8%		5.9%		6.0%

TDS Telecom											
Summary Operating Data (Unaudited)											
Quarter Ended			3/31/2014		12/31/2013		9/30/2013		6/30/2013		3/31/2013
TDS Telecom											
Wireline											
		Residential connections									
		Voice (1)	348,700		352,100		358,100		364,100		368,600
		Broadband (2)	229,000		227,000		229,500		231,700		229,500
		IPTV (3)	15,900		13,800		12,200		10,500		9,000
		Wireline residential connections	593,600		592,900		599,800		606,300		607,100
		Commercial connections									
		Voice (1)	212,200		218,400		223,800		229,100		235,700
		Broadband (2)	26,600		27,100		27,600		28,200		28,800
		managedIP (4)	131,000		127,600		121,000		112,000		103,400
		Wireline commercial connections	369,800		373,100		372,400		369,300		367,900
		Total Wireline connections	963,400		966,000		972,200		975,600		975,000
		Total residential revenue per connection (5)	\$ 40.79		\$ 40.93		\$ 41.12		\$ 40.10		\$ 39.99
Cable											
		Cable Connections									
		Video (6)	68,700		69,100		70,300				
		Broadband (7)	63,000		61,000		59,800				
		Voice (7)	17,700		17,200		16,800				
		Cable connections	149,400		147,300		146,900				
		Total residential revenue per connection (5)	\$ 57.37		\$ 55.27		\$ 55.67				

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

- (2) The number of customers provided high-capacity data circuits via various technologies, including DSL and dedicated internet circuit technologies.
- (3) The number of customers provided video services using IP networking technology.
- (4) The number of telephone handsets, data lines and IP trunks providing communications using IP networking technology.
- (5) Total residential revenue divided by the average number of total residential connections.
- (6) Generally, a home or business receiving video programming counts as one video connection. In counting bulk residential or commercial connections, such as an apartment building or hotel, connections are counted based on the number of units/rooms within the building receiving service.
- (7) Broadband and voice connections reflect billable number of lines into a building for high speed data and voice services, respectively.

TDS Telecom														
Capital Expenditures (000s)														
Quarter Ended		3/31/2014			12/31/2013			9/30/2013			6/30/2013			3/31/2013
Wireline	\$	22,900		\$	46,000		\$	32,800		\$	33,300		\$	27,900
Cable		6,200			7,000			1,400			—			—
HMS		2,800			9,200			2,400			2,300			2,600
	\$	31,900		\$	62,200		\$	36,600		\$	35,600		\$	30,500

Telephone and Data Systems, Inc.											
Consolidated Statement of Operations Highlights											
Three Months Ended March 31,											
(Unaudited, dollars and shares in thousands, except per share amounts)											
										Change	
				2014		2013			Amount		Percent
Operating revenues											
	U.S. Cellular			\$	925,811	\$	1,081,746	\$	(155,935)		(14%)
	TDS Telecom				262,416		217,061		45,355		21%
	All Other (1)				7,735		9,766		(2,031)		(21%)
					1,195,962		1,308,573		(112,611)		(9%)
Operating expenses											
	U.S. Cellular										
		Expenses excluding depreciation, amortization and accretion			846,645		878,070		(31,425)		(4%)
		Depreciation, amortization and accretion			167,753		189,845		(22,092)		(12%)
		(Gain) loss on asset disposals, net			1,934		5,434		(3,500)		(64%)
		(Gain) loss on sale of business and other exit costs, net			(6,900)		6,931		(13,831)		>(100%)
		(Gain) loss on license sales and exchanges			(91,446)		—		(91,446)		N/M
					917,986		1,080,280		(162,294)		(15%)
	TDS Telecom										
		Expenses excluding depreciation, amortization and accretion			190,303		159,486		30,817		19%
		Depreciation, amortization and accretion			53,775		49,491		4,284		9%
		(Gain) loss on asset disposals, net			344		193		151		78%
					244,422		209,170		35,252		17%
	All Other (1)										
		Expenses excluding depreciation and amortization			9,326		9,239		87		1%
		Depreciation and amortization			3,391		2,741		650		24%
		(Gain) loss on asset disposals, net			152		(11)		163		>(100%)
					12,869		11,969		900		8%

			Total operating expenses		1,175,277			1,301,419			(126,142)		(10%)
Operating income (loss)													
			U.S. Cellular		7,825			1,466			6,359		>100%
			TDS Telecom		17,994			7,891			10,103		>100%
			All Other (1)		(5,134)			(2,203)			(2,931)		>(100%)
					20,685			7,154			13,531		>100%
Investment and other income (expense)													
			Equity in earnings of unconsolidated entities		37,327			27,089			10,238		38%
			Interest and dividend income		2,486			1,578			908		58%
			Interest expense		(28,707)			(24,498)			(4,209)		(17%)
			Other, net		160			(154)			314		>(100%)
			Total investment and other income		11,266			4,015			7,251		>100%
Income before income taxes					31,951			11,169			20,782		>100%
			Income tax expense		11,657			4,180			7,477		>100%
Net income					20,294			6,989			13,305		>100%
			Less: Net income attributable to noncontrolling interests, net of tax		2,040			5,570			(3,530)		(63%)
Net income attributable to TDS shareholders					18,254			1,419			16,835		>100%
			TDS Preferred dividend requirement		(12)			(12)			—		—
Net income available to common shareholders				\$	18,242		\$	1,407		\$	16,835		>100%
Basic weighted average shares outstanding					108,988			108,255			733		1%
Basic earnings per share attributable to TDS shareholders				\$	0.17		\$	0.01		\$	0.16		>100%
Diluted weighted average shares outstanding					109,672			108,693			979		1%
Diluted earnings per share attributable to TDS shareholders				\$	0.16		\$	0.01		\$	0.15		>100%

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

N/M – Percentage change not meaningful

Telephone and Data Systems, Inc.					
Consolidated Balance Sheet Highlights					
(Unaudited, dollars in thousands)					
ASSETS					
		March 31,		December 31,	
		2014		2013	
Current assets					
	Cash and cash equivalents	\$	872,910	\$	830,014
	Short-term investments		40,056		50,104
	Accounts receivable from customers and others		615,009		731,114
	Inventory, net		224,904		244,560
	Net deferred income tax asset		106,077		106,077
	Prepaid expenses		89,344		87,920
	Income taxes receivable		5,679		2,397
	Other current assets		35,154		35,151
			1,989,133		2,087,337
Assets held for sale					
			—		16,027
Investments					
	Licenses		1,448,598		1,423,779
	Goodwill		836,843		836,843
	Franchise rights		123,668		123,668
	Other intangible assets, net		66,439		71,454
	Investments in unconsolidated entities		326,279		301,772
	Other investments		611		641
			2,802,438		2,758,157
Property, plant and equipment, net					
	U.S. Cellular		2,776,220		2,856,520
	TDS Telecom		967,847		984,634
	Other		35,066		36,990
			3,779,133		3,878,144
Other assets and deferred charges					
			178,599		164,482
Total assets					
		\$	8,749,303	\$	8,904,147

Telephone and Data Systems, Inc.							
Consolidated Balance Sheet Highlights							
(Unaudited, dollars in thousands)							
LIABILITIES AND EQUITY							
				March 31,		December 31,	
				2014		2013	
Current liabilities							
		Current portion of long-term debt	\$	1,415	\$	1,646	
		Accounts payable		414,015		496,069	
		Customer deposits and deferred revenues		287,999		289,445	
		Accrued interest		15,757		6,673	
		Accrued taxes		72,761		70,518	
		Accrued compensation		65,486		115,031	
		Other current liabilities		167,746		212,374	
				1,025,179		1,191,756	
Deferred liabilities and credits							
		Net deferred income tax liability		847,850		862,975	
		Other deferred liabilities and credits		477,305		458,709	
Long-term debt							
				1,720,031		1,720,074	
Noncontrolling interests with redemption features							
				543		536	
Equity							
	TDS shareholders' equity						
		Series A Common and Common Shares, par value \$0.01		1,327		1,327	
		Capital in excess of par value		2,313,682		2,308,807	
		Treasury shares, at cost		(722,658)		(721,354)	
		Accumulated other comprehensive loss		(938)		(569)	
		Retained earnings		2,533,298		2,529,626	
		Total TDS shareholders' equity		4,124,711		4,117,837	
	Preferred shares						
				824		824	
	Noncontrolling interests						
				552,860		551,436	
	Total equity						
				4,678,395		4,670,097	

Total liabilities and equity				\$	8,749,303		\$	8,904,147

Balance Sheet Highlights												
March 31, 2014												
(Unaudited, dollars in thousands)												
			U.S.		TDS		TDS		Intercompany		TDS	
			Cellular		Telecom		& Other		Eliminations		Consolidated	
Cash and cash equivalents	\$	398,541		\$	84,120		\$	390,249	\$		\$	872,910
Affiliated cash investments					444,181				(444,181)			
Short-term investments		40,056									40,056	
	\$	438,597		\$	528,301		\$	390,249	\$	(444,181)	\$	912,966
Licenses, goodwill and other intangible assets	\$	1,813,469		\$	792,606		\$	(130,527)	\$		\$	2,475,548
Investment in unconsolidated entities		289,842			3,807			39,771		(7,141)		326,279
Long-term and other investments					611							611
	\$	2,103,311		\$	797,024		\$	(90,756)	\$	(7,141)	\$	2,802,438
Property, plant and equipment, net	\$	2,776,220		\$	967,847		\$	35,066	\$		\$	3,779,133
Long-term debt:												
Current portion	\$	166		\$	73		\$	1,176	\$		\$	1,415
Non-current portion		878,127			1,420			840,484				1,720,031
	\$	878,293		\$	1,493		\$	841,660	\$		\$	1,721,446

Telephone and Data Systems, Inc.**Schedule of Cash and Cash Equivalents and Investments**

(Unaudited, dollars in thousands)

The following table presents TDS' cash and cash equivalents and investments at March 31, 2014 and December 31, 2013.

		March 31,		December 31,	
		2014		2013	
Cash and cash equivalents		\$	872,910	\$	830,014
Amounts included in short-term investments (1) (2)					
	U.S. Treasury Notes		40,056		50,104
Total cash and cash equivalents and investments		\$	912,966	\$	880,118

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

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

Telephone and Data Systems, Inc.							
Consolidated Statement of Cash Flows							
Three Months Ended March 31,							
(Unaudited, dollars in thousands)							
					2014		2013
Cash flows from operating activities							
	Net income				\$	20,294	\$ 6,989
	Add (deduct) adjustments to reconcile net income to net cash flows from operating activities						
				Depreciation, amortization and accretion		224,919	242,077
				Bad debts expense		21,559	17,874
				Stock-based compensation expense		6,759	7,585
				Deferred income taxes, net		(14,510)	3,009
				Equity in earnings of unconsolidated entities		(37,327)	(27,089)
				Distributions from unconsolidated entities		12,820	8,089
				(Gain) loss on asset disposals, net		2,430	5,616
				(Gain) loss on sale of business and other exit costs, net		(6,900)	6,931
				(Gain) loss on license sales and exchanges		(91,446)	
				Noncash interest expense		506	497
				Other operating activities		47	256
	Changes in assets and liabilities from operations						
				Accounts receivable		92,949	34,038
				Inventory		19,656	16,860
				Accounts payable		(53,403)	(3,203)
				Customer deposits and deferred revenues		(1,447)	7,904
				Accrued taxes		(1,634)	5,309
				Accrued interest		9,136	9,279
				Other assets and liabilities		(99,471)	(95,669)
						104,937	246,352
Cash flows from investing activities							
	Cash used for additions to property, plant and equipment					(150,890)	(176,318)
	Cash paid for acquisitions and licenses					(8,254)	(14,150)
	Cash received from divestitures					103,042	

	Cash received for investments		10,000			
	Other investing activities		1,623			6,364
			(44,479)			(184,104)
Cash flows from financing activities						
	Repayment of long-term debt		(392)			(328)
	TDS Common Shares reissued for benefit plans, net of tax payments		(50)			140
	U.S. Cellular Common Shares reissued for benefit plans, net of tax payments		316			123
	Repurchase of TDS Common Shares		(3,342)			
	Repurchase of U.S. Cellular Common Shares		(2,000)			(18,425)
	Dividends paid to TDS shareholders		(14,582)			(13,792)
	Distributions to noncontrolling interests		(346)			(2,396)
	Other financing activities		2,834			(1,351)
			(17,562)			(36,029)
Net increase in cash and cash equivalents			42,896			26,219
Cash and cash equivalents						
	Beginning of period		830,014			740,481
	End of period	\$	872,910	\$		766,700

TDS Telecom Highlights												
Three Months Ended March 31,												
(Unaudited, dollars in thousands)												
										Change		
				2014		2013			Amount		Percent	
Wireline												
Operating revenues												
	Residential			\$	72,505	\$	73,004	\$	(499)		(1%)	
	Commercial				57,980		57,125		855		1%	
	Wholesale				46,448		50,549		(4,101)		(8%)	
		Total service revenues			176,933		180,678		(3,745)		(2%)	
	Equipment sales				553		897		(344)		(38%)	
					177,486		181,575		(4,089)		(2%)	
Operating expenses												
	Cost of services				64,400		66,439		(2,039)		(3%)	
	Cost of equipment sold				483		1,010		(527)		(52%)	
	Selling, general and administrative expenses				46,520		57,380		(10,860)		(19%)	
	Depreciation, amortization and accretion				42,736		44,023		(1,287)		(3%)	
	Loss on asset disposals, net				245		163		82		50%	
					154,384		169,015		(14,631)		(9%)	
	Operating income			\$	23,102	\$	12,560	\$	10,542		84%	
Cable												
Operating revenues												
	Residential			\$	18,253	\$	—	\$	18,253		N/M	
	Commercial				4,250		—		4,250		N/M	
					22,503		—		22,503		N/M	
Operating expenses												
	Cost of services				10,955		—		10,955		N/M	
	Selling, general and administrative expenses				6,378		—		6,378		N/M	
	Depreciation, amortization and accretion				4,361		—		4,361		N/M	
	Loss on asset disposals, net				65		—		65		N/M	
					21,759		—		21,759		N/M	
	Operating income			\$	744	\$	—	\$	744		N/M	

HMS													
Operating revenues													
	Service revenues			\$	27,376		\$	22,000		\$	5,376		24%
	Equipment sales				35,732			13,564			22,168		>100%
					63,108			35,564			27,544		77%
Operating expenses													
	Cost of services				16,946			13,602			3,344		25%
	Cost of equipment sold				30,467			11,212			19,255		>100%
	Selling, general and administrative expenses				14,835			9,921			4,914		50%
	Depreciation, amortization and accretion				6,678			5,468			1,210		22%
	Loss on asset disposals, net				34			30			4		13%
					68,960			40,233			28,727		71%
	Operating loss			\$	(5,852)		\$	(4,669)		\$	(1,183)		(25%)
Intercompany revenues				\$	(681)		\$	(78)		\$	(603)		>(100)%
Intercompany expenses					(681)			(78)			(603)		>(100)%
Total TDS Telecom operating income				\$	17,994		\$	7,891		\$	10,103		>100%

Telephone and Data Systems, Inc.							
Financial Measures and Reconciliations							
(Unaudited, dollars in thousands)							
				TDS Consolidated			
Three Months Ended March 31,				2014		2013	
	Cash flows from operating activities			\$	104,937	\$	246,352
	Deduct:						
	Cash used for additions to property, plant, and equipment				150,890		176,318
	Free cash flow (1)			\$	(45,953)	\$	70,034

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

