

NY 1 and NY 2 Q&A

Telephone and Data Systems, Inc. (“TDS”) and its subsidiary, United States Cellular Corporation (“U.S. Cellular”), are herein referred to as “the Company”.

This Q&A document should be read in conjunction with the Company’s 2012 Form 10-K filed with the Securities and Exchange Commission (SEC) on February 26, 2013 and the Form 8-K filed with the SEC on April 9, 2013. The following does not provide any significant information not included in the Form 8-K and simply provides additional clarification of the accounting for this matter.

Question 1:

The Company filed a Form 8-K on April 9, 2013 regarding the Company’s investment in the St. Lawrence Seaway RSA Cellular Partnership (“NY1”) and the New York RSA 2 Cellular Partnership (“NY2” and, together with NY1, the “Partnerships”). The Form 8-K reported that, effective April 3, 2013, the Company has deconsolidated the Partnerships and thereafter will report them as equity method investments in its consolidated financial statements (the “Deconsolidation”). Did the Company’s ownership interests in the Partnerships change?

Answer 1:

No. The Company continues to hold the same majority ownership interests in both NY1 and NY2. The Company did not sell, transfer or otherwise dispose of its investments (or any portion thereof) in the Partnerships.

The Company filed a Form 8-K filing under Item 2.01 – Completion of Acquisition or Disposition of Assets due to a SEC reporting requirement that stipulates that the change in accounting for the Company’s investments from consolidation to the equity method of accounting should be reported via a Form 8-K filing.

Question 2:

Since the Company did not dispose of its investments in the Partnerships, what happened to cause the change in accounting (i.e., the Deconsolidation)?

Answer 2:

The Company entered into an agreement with the minority partner (Cellco Partnership d/b/a Verizon Wireless, (“Verizon Wireless”)) in the Partnerships on April 3, 2013. In addition to being the minority partner in both of the Partnerships, Verizon Wireless has been acting manager of the Partnerships and will continue to operate as manager under the conditions of the agreement.

The agreement accomplished several business objectives for the Partnerships, including the execution of a 700 MHz radio spectrum lease with Verizon Wireless that will be instrumental in facilitating the build-out of a 4G LTE network for the Partnerships. In addition to being affirmed as manager of the Partnerships, Verizon Wireless was given certain additional rights to direct and execute the daily activities of the business. The granting of these additional management rights to Verizon triggered a change in accounting under accounting principles generally accepted in the United States of America (“GAAP”). As a result, under GAAP, the Company will account for its investments in the Partnerships under the equity method beginning in Q2 2013.

Question 3:

How will the Deconsolidation impact the Company's financial statements?

Answer 3:

The Form 8-K filed on April 9, 2013 provides a pro-forma Balance Sheet and Statement of Operations to illustrate how the 2012 Balance Sheet and Statement of Operations would have been reported had the Company accounted for its investments under the equity method as of and for the year ended December 31, 2012. In accordance with GAAP, the Company will deconsolidate the Partnerships prospectively in Q2 2013 and, therefore, the historical periods (i.e., prior to Q2 2013) will reflect the investments in the Partnerships as consolidated subsidiaries. Future periods will report the Company's share of the partnerships' net income as one amount in "Equity in earnings of unconsolidated entities."

Question 4:

Will the Deconsolidation change other items reported in the Company's Form 10-Q or Form 10-K filings that were not reflected in the pro-forma information included in the Form 8-K filed on April 9, 2013?

Answer 4:

The Deconsolidation will change various line items within the Company's financial statements. However, the "Net income attributable to TDS shareholders" and the "Net income attributable to U.S. Cellular shareholders" would be the same on a recurring basis under either method of accounting (i.e., consolidation or equity method of accounting). In effect, the Company will continue to record only its share of the net income of the Partnerships in its "Net income attributable to TDS shareholders" and "Net income attributable to U.S. Cellular shareholders". Please refer to the pro-forma information in the Form 8-K filed on April 9, 2013 for an illustration of how the Deconsolidation would have impacted the various line items in the Balance Sheet and Statement of Operations as reported in the Company's 2012 Form 10-K filing.

Under GAAP, this change in accounting will require the recognition of a non-cash gain in Q2 2013. Such gain is dependent upon assessing the fair value of the Partnerships, and such fair value assessment is pending.

As a result of the Deconsolidation, various line items within the Statement of Cash Flows would be different under the equity method of accounting as compared to consolidation. However, there is no cash impact of the Deconsolidation.

In addition, certain operating data will also change as a result of the Deconsolidation. The Partnerships had 215,000 total customers as of December 31, 2012, which represented approximately 4% of "All Customers" reported by U.S. Cellular as of December 31, 2012. Beginning in Q2 2013, these customers will no longer be consolidated into the Company's operating data. However, the Company's relationship with these customers is unchanged. This change in reporting for customers is driven by the accounting change to deconsolidate the Partnerships, and the Company's convention of only presenting operating data for consolidated subsidiaries.

Also, the Company's non-GAAP measure of "Adjusted income before income taxes" is expected to decrease under the equity method of accounting as compared to consolidation. Prospectively, under the equity method of accounting, this measure will include only the Company's share of the net income of the Partnerships, whereas historically, under the consolidation approach, this measure included both the Company's share and Verizon Wireless' share of net income of the Partnerships.

The Deconsolidation will also impact the Company's financial statement footnotes and other disclosures as required by GAAP and SEC regulations.