

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **April 3, 2013**

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-14157
(Commission
File Number)

36-2669023
(I.R.S. Employer
Identification No.)

30 North LaSalle Street, Suite 4000, Chicago, Illinois
(Address of principal executive offices)

60602
(Zip Code)

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

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 2.01 Completion of Acquisition or Disposition of Assets.

On April 3, 2013, United States Cellular Corporation (“U.S. Cellular”), a subsidiary of Telephone and Data Systems, Inc. (“TDS”), entered into a Term Sheet relating to the Partnerships (as defined below) with Cellco Partnership d/b/a Verizon Wireless (“Verizon Wireless”). Pursuant to its terms, the Term Sheet became effective on April 3, 2013.

U.S. Cellular holds a 60.00% interest in St. Lawrence Seaway RSA Cellular Partnership (“NY1”) and a 57.14% interest in New York RSA 2 Cellular Partnership (“NY2”) and, together with NY1, the “Partnerships”). The remaining interests are held by Verizon Wireless. The Term Sheet provides that the agreements governing the Partnerships (the “Partnership Agreements”), will be amended to reflect the changes effected by the Term Sheet.

The Partnerships are operated by Verizon Wireless under the Verizon Wireless brand. Because U.S. Cellular owns a greater than 50% interest in each of these markets and based on U.S. Cellular’s rights under the Partnership Agreements, prior to April 3, 2013, TDS consolidated the financial results of these markets in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

The Term Sheet amends the Partnership Agreements in several ways, which provide Verizon Wireless with substantive participating rights that allow Verizon Wireless to make decisions that are in the ordinary course of business of the Partnerships and which are significant to directing and executing the activities of the business. Accordingly, as required by GAAP, effective April 3, 2013, TDS has deconsolidated the Partnerships and thereafter will report them as equity method investments in its consolidated financial statements (the “Deconsolidation”). Under the instructions to Form 8-K, the Deconsolidation is treated as a disposition of the Partnership interests. This is only a deconsolidation and disposition for accounting purposes and does not represent a disposition or change in control for regulatory or other purposes.

The consideration for U.S. Cellular’s agreements under the Term Sheet includes the agreements of Verizon Wireless under the Term Sheet as determined through arm’s length negotiations, including a 700 MHz radio spectrum lease to the Partnerships for the geographical areas in which the Partnerships operate. In addition, the Partnerships’ will have greater rights with respect roaming access by their customers on the Verizon 4G LTE network nationwide. The Term Sheet did not require the delivery of any funds in connection with the Deconsolidation on April 3, 2013.

Because the Deconsolidation meets one of the significance tests specified in Item 2.01 of Form 8-K, TDS is filing, as Exhibit 99.1 to this Form 8-K, unaudited pro forma financial information for TDS as of December 31, 2012 and for the year ended December 31, 2012 that give effect to the Deconsolidation.

In addition to the foregoing described arrangements, TDS and U.S. Cellular have certain arms’ length, ordinary business relationships with Verizon Wireless and its affiliates, including the following: (i) U.S. Cellular and Verizon Wireless are parties to roaming agreements; and (ii) U.S. Cellular has a 5.5% ownership interest in the Los Angeles SMSA Limited Partnership, and partnership interests in other wireless partnerships, which are controlled by and managed by Verizon Wireless.

Item 9.01. Financial Statements and Exhibits

(b) Pro Forma Financial Information

The unaudited pro forma financial information of TDS as of December 31, 2012 and for the year ended December 31, 2012 that give effect to the Deconsolidation, as discussed above in item 2.01, are attached as Exhibit 99.1.

(d) Exhibits:

In accordance with the provisions of Item 601 of Regulation S-K, any Exhibits filed or furnished herewith are set forth on the Exhibit Index attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

Telephone and Data Systems, Inc.
(Registrant)

Date: April 9, 2013

By: /s/ Douglas D. Shuma
Douglas D. Shuma
Senior Vice President and Corporate
Controller

EXHIBIT INDEX

The following exhibits are filed or furnished herewith as noted below.

Exhibit No.	Description
99.1	Unaudited pro forma financial information of TDS as of December 31, 2012 and for the year ended December 31, 2012 that give effect to the Deconsolidation.
99.2	Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement

UNAUDITED PRO FORMA FINANCIAL INFORMATION

On April 3, 2013, United States Cellular Corporation (“U.S. Cellular”), a subsidiary of Telephone and Data Systems, Inc. (“TDS”), entered into a Term Sheet relating to the Partnerships (as defined below) with Celco Partnership d/b/a Verizon Wireless (“Verizon Wireless”). Pursuant to its terms, the Term Sheet became effective on April 3, 2013.

U.S. Cellular holds a 60.00% interest in St. Lawrence Seaway RSA Cellular Partnership (“NY1”) and a 57.14% interest in New York RSA 2 Cellular Partnership (“NY2”) and, together with NY1, the “Partnerships”). The remaining interests are held by Verizon Wireless. The Term Sheet provides that the agreements governing the Partnerships (the “Partnership Agreements”), will be amended to reflect the changes effected by the Term Sheet.

The Partnerships are operated by Verizon Wireless under the Verizon Wireless brand. Because U.S. Cellular owns a greater than 50% interest in each of these markets and based on U.S. Cellular’s rights under the Partnership Agreements, prior to April 3, 2013, TDS consolidated the financial results of these markets in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

The Term Sheet amends the Partnership Agreements in several ways, which provide Verizon Wireless with substantive participating rights that allow Verizon Wireless to make decisions that are in the ordinary course of business of the Partnerships and which are significant to directing and executing the activities of the business. Accordingly, as required by GAAP, effective April 3, 2013, TDS has deconsolidated the Partnerships and thereafter will report them as equity method investments on its consolidated financial statements (the “Deconsolidation”).

The unaudited pro forma financial information is based on financial statements prepared in accordance with GAAP. In addition, the unaudited pro forma financial information is based upon available information and assumptions that TDS considers to be reasonable, and have been made solely for purposes of developing such unaudited pro forma financial information for illustrative purposes in compliance with the disclosure requirements of the Securities and Exchange Commission (“SEC”).

The unaudited pro forma financial information is based on various assumptions. The actual results reported by TDS in periods following the Deconsolidation may differ significantly from that reflected in this unaudited pro forma financial information. As a result, the unaudited pro forma financial information does not purport to project the future financial condition and results of operations of the consolidated company. The pro forma assumptions and adjustments are described in the accompanying schedules. Pro forma adjustments are shown in the “NY1 & NY2” column and are those that are directly attributable to the transaction, are factually supportable and, with respect to the unaudited pro forma Statement of Operations, are expected to have a continuing impact on the consolidated results.

The unaudited pro forma financial information should be read together with the TDS’ audited consolidated financial statements and accompanying notes, as of and for the fiscal year ended December 31, 2012, and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the TDS’ Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which was filed with the SEC on February 26, 2013.

The unaudited Pro Forma Statement of Operations for the year ended December 31, 2012 gives effect to the Deconsolidation as if it had occurred effective January 1, 2012, the beginning of TDS' 2012 fiscal year.

Telephone and Data Systems, Inc.
Pro Forma Statement of Operations
(Unaudited)

<u>Year Ended December 31, 2012</u>	<u>As Reported</u>	<u>NY1 & NY2</u>	<u>Pro Forma</u>
(Dollars and shares in thousands, except per share amounts)			
Operating revenues	\$ 5,345,277	\$ 168,971	\$ 5,176,306
Operating expenses			
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	2,272,570	64,115	2,208,455
Selling, general and administrative expense	2,033,901	46,317	1,987,584
Depreciation, amortization and accretion expense	813,626	10,262	803,364
Loss on impairment of assets	515	-	515
(Gain) loss on asset disposals and exchanges, net	19,741	-	19,741
(Gain) loss on sale of business and other exit costs, net	21,061	-	21,061
Total operating expenses	<u>5,161,414</u>	<u>120,694</u>	<u>5,040,720</u>
Operating income	183,863	48,277	135,586
Investment and other income (expense)			
Equity in earnings of unconsolidated entities (1)	92,867	(28,407)	121,274
Interest and dividend income	9,248	-	9,248
Gain (loss) on investment	(3,718)	-	(3,718)
Interest expense	(86,745)	-	(86,745)
Other, net	720	90	630
Total investment and other income (expense)	<u>12,372</u>	<u>(28,317)</u>	<u>40,689</u>
Income before income taxes	196,235	19,960	176,275
Income tax expense	73,582	-	73,582
Net income	122,653	19,960	102,693
Less: Net income attributable to noncontrolling interests, net of tax	(40,792)	(19,960)	(20,832)
Net income attributable to TDS shareholders	81,861	-	81,861
Preferred dividend requirement	(50)	-	(50)
Net income available to common	<u>\$ 81,811</u>	<u>\$ -</u>	<u>\$ 81,811</u>
Basic weighted average shares outstanding (2)	108,671	-	108,671
Basic earnings per share attributable to TDS shareholders	<u>\$ 0.75</u>	<u>\$ -</u>	<u>\$ 0.75</u>
Diluted weighted average shares outstanding (2)	108,937	-	108,937
Diluted earnings per share attributable to TDS shareholders	<u>\$ 0.75</u>	<u>\$ -</u>	<u>\$ 0.75</u>
Dividends per share	<u>\$ 0.49</u>	<u>\$ -</u>	<u>\$ 0.49</u>

The unaudited Pro Forma Balance Sheet gives effect to the Divestiture Transaction as if it had occurred on December 31, 2012.

Telephone and Data Systems, Inc.
Pro Forma Balance Sheet — Assets
(Unaudited)

<u>December 31, 2012</u>	<u>As Reported</u>	<u>NY1 & NY2 (3)</u>	<u>Pro Forma</u>
(Dollars in thousands)			
Current assets			
Cash and cash equivalents	\$ 740,481	\$ -	\$ 740,481
Short-term investments	115,700	-	115,700
Accounts receivable			
Due from customers and agents	409,720	12,468	397,252
Other	164,608	13,681	150,927
Inventory	160,692	-	160,692
Net deferred income tax asset	43,411	-	43,411
Prepaid expenses	86,385	40	86,345
Income taxes receivable	9,625	-	9,625
Other current assets	32,815	-	32,815
	<u>1,763,437</u>	<u>26,189</u>	<u>1,737,248</u>
Assets held for sale	163,242	-	163,242
Investments			
Licenses	1,480,039	-	1,480,039
Goodwill	797,194	-	797,194
Other intangible assets, net of accumulated amortization of \$143,613	58,522	-	58,522
Investments in unconsolidated entities (4)	179,921	(55,700)	235,621
Long-term investments	50,305	-	50,305
Other investments	824	-	824
	<u>2,566,805</u>	<u>(55,700)</u>	<u>2,622,505</u>
Property, plant and equipment			
			10,674,500
In service and under construction	10,808,499	133,999	
Less: Accumulated depreciation	6,811,233	55,280	6,755,953
	<u>3,997,266</u>	<u>78,719</u>	<u>3,918,547</u>
Other assets and deferred charges	133,150	74	133,076
Total assets	<u>\$ 8,623,900</u>	<u>\$ 49,282</u>	<u>\$ 8,574,618</u>

Telephone and Data Systems, Inc.
Pro Forma Balance Sheet — Liabilities and Equity
(Unaudited)

December 31, 2012	As Reported	NY1 & NY2 (3)	Pro Forma
(Dollars and shares in thousands)			
Current liabilities			
Current portion of long-term debt	\$ 1,233	\$ -	\$ 1,233
Accounts payable	377,291	4,653	372,638
Customer deposits and deferred revenues	222,345	4,853	217,492
Accrued interest	6,565	-	6,565
Accrued taxes	48,237	-	48,237
Accrued compensation	134,932	-	134,932
Other current liabilities	134,005	-	134,005
	<u>924,608</u>	<u>9,506</u>	<u>915,102</u>
Liabilities held for sale	19,594	-	19,594
Deferred liabilities and credits			
Net deferred income tax liability	862,580	-	862,580
Other deferred liabilities and credits	438,727	801	437,926
Long-term debt	1,721,571	-	1,721,571
Commitments and contingencies	-	-	-
Noncontrolling interests with redemption features	493	-	493
Equity			
TDS shareholders' equity			
Series A Common and Common Shares			
Authorized 290,000 shares (25,000 Series A Common and 265,000 Common Shares)			
Issued 132,672 shares (7,160 Series A Common and 125,512 Common Shares)			
Outstanding 108,831 shares (7,160 Series A Common and 100,871 Common Shares)			
Par Value (\$.01 per share) of \$1,327 (\$72 Series A Common and \$1,255 Common Shares)			
	1,327	-	1,327
Capital in excess of par value	2,304,122	-	2,304,122
Treasury shares at cost:			
24,641 Common Shares	(750,099)	-	(750,099)
Accumulated other comprehensive loss	(8,132)	-	(8,132)
Retained earnings	2,464,318	-	2,464,318
Total TDS shareholders' equity	<u>4,011,536</u>	<u>-</u>	<u>4,011,536</u>
Preferred shares	825	-	825
Noncontrolling interests	643,966	38,975	604,991
Total equity	<u>4,656,327</u>	<u>38,975</u>	<u>4,617,352</u>
Total liabilities and equity	<u>\$ 8,623,900</u>	<u>\$ 49,282</u>	<u>\$ 8,574,618</u>

(1) NY1 & NY2 Equity in earnings of unconsolidated entities represents TDS' share of NY1 & NY2 net income for the year ended December 31, 2012 based on U.S. Cellular's interests in the Partnerships.

(2) The number of basic and diluted shares outstanding did not change as a result of the Deconsolidation.

- (3) In accordance with GAAP, TDS will recognize a non-cash gain in the second quarter of 2013 as a result of the Deconsolidation. This has not been included as a pro forma adjustment to the unaudited Pro Forma Balance Sheet as of December 31, 2012 as the gain is not estimable at this time. Note that the gain would not impact the unaudited Pro Forma Statement of Operations due to its non-recurring nature.
- (4) As a result of the Deconsolidation, TDS' interest in the Partnerships is reflected in Investments in unconsolidated entities.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995
SAFE HARBOR CAUTIONARY STATEMENT

This Form 8-K contains statements that are not based on historical facts and represent forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, that address activities, events or developments that TDS intends, expects, projects, believes, estimates, plans or anticipates will or may occur in the future are forward-looking statements. The words “believes,” “anticipates,” “estimates,” “expects,” “plans,” “intends,” “projects” and similar expressions are intended to identify these forward-looking statements, but are not the exclusive means of identifying them. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include those set forth below, as more fully discussed under “Risk Factors” in the most recent filing of TDS’ Form 10-K, as updated by any TDS Form 10-Q filed subsequent to such Form 10-K. However, such factors are not necessarily all of the important factors that could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the forward-looking statements contained in this document. Other unknown or unpredictable factors also could have material adverse effects on future results, performance or achievements. TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. You should carefully consider the Risk Factors in the most recent filing of TDS’ Form 10-K, as updated by any TDS Form 10-Q filed subsequent to such Form 10-K, the following factors and other information contained in, or incorporated by reference into, this Form 8-K to understand the material risks relating to TDS’ business.

- *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.*
- *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 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.*

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.

