TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-K
February 25, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

Commission file number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-2669023**
(State or other jurisdiction	(IRS Employer Identification No.)

of incorporation or organization)

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

Registrant s Telephone Number: **(312) 630-1900**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Shares, $.01 par value	New York Stock Exchange
Special Common Shares, $.01 par value	New York Stock Exchange
7.6% Series A Notes due 2041	New York Stock Exchange
6.625% Senior Notes due 2045	New York Stock Exchange
6.875% Senior Notes due 2059	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of June 30, 2010, the aggregate market values of the registrant s Common Shares, Special Common Shares, Series A Common Shares and Preferred Shares held by non-affiliates were approximately $1.2 billion, $0.6 billion, $3.0 million and $0.8 million, respectively. For purposes hereof, it was assumed that each director, executive officer and holder of 10% or more of any class of voting equity security of TDS is an affiliate. The June 30, 2010 closing price of the Common Shares was $30.39 and the Special Common Shares was $26.54, as reported by the New York Stock Exchange. Because no market exists for the Series A Common Shares and Preferred Shares, the registrant has assumed for purposes hereof that (i) each Series A Common Share has a market value equal to one Common Share because the Series A Common Shares are convertible on a share-for-share basis into Common Shares, (ii) each nonredeemable Preferred Share has a market value of $100 because each of such shares had a stated value of $100 when issued, and (iii) each Preferred Share that is redeemable by the delivery of TDS Common Shares has a value equal to the value of the number of Common Shares (at $30.39 per share) on June 30, 2010 that would be required to be delivered upon redemption.

The number of shares outstanding of each of the registrant s classes of common stock, as of January 31, 2011, is 49,896,807 Common Shares, $.01 par value, 47,539,163 Special Common Shares, $.01 par value and 6,509,968 Series A Common Shares, $.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Those sections or portions of the registrant s 2010 Annual Report to Shareholders, filed as Exhibit 13 hereto, and of the registrant s Notice of Annual Meeting of Shareholders and Proxy Statement for its 2011 Annual Meeting of Shareholders scheduled to be held May 19, 2011, described in the cross reference sheet and table of contents included herein are incorporated by reference into Parts II and III of this report.

Telephone and Data Systems, Inc.

Annual Report on Form 10-K

For The Period Ended December 31, 2010

CROSS REFERENCE SHEET AND TABLE OF CONTENTS

(1) Parenthetical references are to information incorporated by reference from Exhibit 13 hereto, which includes portions of the registrant s Annual Report to Shareholders for the year ended December 31, 2010 (Annual Report) and from the registrant s Notice of Annual Meeting of Shareholders and Proxy Statement for its 2011 Annual Meeting of Shareholders (Proxy Statement) to be filed on or prior to April 30, 2011.

(2) Annual Report sections entitled Stock and Dividend Information and Consolidated Quarterly Information (Unaudited), except that Securities Authorized for Issuance under Equity Compensation Plans is incorporated in Item 12 of this Form 10-K and Issuer Purchases of Equity Securities, is included under Item 5 of this Form 10-K.

(3) Annual Report section entitled Selected Consolidated Financial Data, except that Ratio of Earnings to Fixed Charges is included in Exhibit 12 to this Form 10-K.

(4) Annual Report section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations.

(5) Annual Report section entitled Market Risk.
(6) Annual Report sections entitled Consolidated Statement of Operations, Consolidated Statement of Cash Flows, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Comprehensive Income, Notes to Consolidated Financial Statements, Consolidated Quarterly Information (Unaudited), Management s Report on Internal Control Over Financial Reporting and Report of Independent Registered Public Accounting Firm.
(7) Proxy Statement sections entitled Election of Directors, Corporate Governance, Executive Officers and Section 16(a) Beneficial Ownership Reporting Compliance.
(8) Proxy Statement section entitled Executive and Director Compensation.
(9) Proxy Statement sections entitled Security Ownership of Certain Beneficial Owners and Management and Securities Authorized for Issuance under Equity Compensation Plans.
(10) Proxy Statement sections entitled Corporate Governance, and Certain Relationships and Related Transactions.
(11) Proxy Statement section entitled Fees Paid to Principal Accountants.

Telephone and Data Systems, Inc.

30 NORTH LASALLE STREET, CHICAGO, ILLINOIS 60602

TELEPHONE (312) 630-1900

PART I

Item 1. Business

Telephone and Data Systems, Inc. (TDS) is a diversified telecommunications service company with wireless operations provided by TDS 83%-owned subsidiary, United States Cellular Corporation (U.S. Cellular), and wireline operations provided by TDS wholly owned subsidiary, TDS Telecommunications Corporation (TDS Telecom). TDS also conducts printing and distribution services through its majority-owned subsidiary, Suttle-Straus, Inc. (Suttle-Straus). At December 31, 2010, TDS served approximately 7.2 million customers in 36 states, including 6.1 million wireless customers and 1.1 million wireline equivalent access lines. U.S. Cellular, TDS Telecom and Suttle-Straus provided approximately 84%, 15% and less than 1%, respectively, of TDS consolidated revenues during 2010. TDS business strategy is to expand its existing operations through internal growth and acquisitions and to explore and develop other telecommunications and related businesses that management believes will utilize TDS expertise in customer-focused communications and related services.

TDS has three reportable segments: (i) U.S. Cellular s wireless operations; (ii) TDS Telecom s Incumbent Local Exchange Carrier (ILEC) wireline operations and (iii) TDS Telecom s Competitive Local Exchange Carrier (CLEC) wireline operations. Information about each of these segments is disclosed below. Additional information about TDS segments is incorporated herein by reference from Note 17 Business Segment Information, in TDS Annual Report to Shareholders, filed as Exhibit 13 hereto. TDS does not have any foreign operations.

TDS was incorporated in 1968 and changed its state of incorporation from Iowa to Delaware in 1998. TDS executive offices are located at 30 North LaSalle Street, Chicago, Illinois 60602. Its telephone number is 312-630-1900.

TDS Common Shares trade under the ticker symbol TDS and the Special Common Shares trade under the ticker symbol TDS.S on the New York Stock Exchange (NYSE). U.S. Cellular Common Shares trade on the NYSE under the ticker symbol USM.

TDS 7.6% Series A Notes trade on the NYSE under the symbol TDA, TDS 6.625% Senior Notes trade under the symbol TDI and TDS 6.875% Senior Notes trade under the symbol TDE. U.S. Cellular s 7.5% Senior Notes trade under the symbol UZV.

U.S. Cellular is a majority-owned subsidiary of TDS. As of December 31, 2010, TDS owned 83% of the combined total of the outstanding Common Shares and Series A Common Shares of U.S. Cellular and controlled 96% of the combined voting power of both classes of common stock.

Available Information

TDS website is *http://www.teldta.com*. TDS files with, or furnishes to, the Securities and Exchange Commission (SEC) annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, as well as various other information. Anyone may access, free of charge, through the Investor Relations portion of the website, the TDS annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practical after such material is electronically filed with the SEC. The public may read and copy any materials TDS files with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington D.C. 20549. The public may obtain information on the operation of the Reference Room by calling the SEC at 1-800-732-0330. The public may also view electronic filings of TDS by accessing SEC filings at *http://www.sec.gov*.

U.S. Cellular s website address is *http://www.uscc.com*. U.S. Cellular files with, or furnishes to, the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, as well as various other information. Investors may access, free of charge, through the Investor Relations portion of the website, U.S. Cellular s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practical after such material is filed electronically with the SEC. The public may read and copy any materials U.S. Cellular files with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington D.C. 20549. The public may obtain information on the operation of the Reference Room by calling the SEC at 1-800-732-0330. The public may also view electronic filings of U.S. Cellular by accessing SEC filings at *http://www.sec.gov*.

U.S. Cellular Operations

General

United States Cellular Corporation (U.S. Cellular) was incorporated under the laws of the state of Delaware in 1983. At December 31, 2010, U.S. Cellular provided wireless voice and data services to 6.1 million customers in five geographic market areas in 26 states. U.S. Cellular believes that it is the sixth largest wireless operating company in the United States at December 31, 2010 based on internally prepared calculations of the aggregate number of customers in its consolidated markets compared to the number of customers disclosed by other wireless companies in their publicly released information. U.S. Cellular operates in one reportable segment, wireless operations, and all of its wireless operating markets are in the United States.

Wireless Interests

U.S. Cellular is a wireless telecommunications service provider. U.S. Cellular operates its wireless systems under an organizational structure in which it groups its markets (geographic service areas as defined by the Federal Communications Commission (FCC) in which wireless carriers are licensed, for fixed terms, to provide service) into geographic market areas to offer customers large service areas that primarily utilize U.S. Cellular s network. Since 1985, when it began providing wireless telecommunications service in Knoxville, Tennessee and Tulsa, Oklahoma, U.S. Cellular has expanded its wireless networks and customer service operations to cover five geographic market areas in portions of 26 states, which collectively represent a total population of 46.5 million as of December 31, 2010. U.S. Cellular uses roaming agreements with other wireless carriers to provide service to its customers in areas not covered by U.S. Cellular s network.

U.S. Cellular is subject to regulation by the FCC as a provider of wireless communication services. The FCC regulates the licensing, construction, and operation of providers of wireless communications systems, as well as the provision of services over those systems. See Regulation below for further discussion regarding licenses as well as the regulations promulgated by the FCC.

U.S. Cellular s ownership interests in wireless licenses include both consolidated and investment interests in licenses covering portions of 35 states and a total population of 90.5 million at December 31, 2010.

For purposes of tracking population counts in order to calculate market penetration, when U.S. Cellular acquires a licensed area that overlaps a licensed area it already owns, it does not duplicate the population counts for any overlapping licensed area. Only incremental population counts are added to the reported amount of total market population in the case of an acquisition of a licensed area that overlaps a previously owned licensed area. The incremental population counts that are added in such event are referred to throughout this Form 10-K as incremental population measurements.

Total market population measures are provided to allow comparison of the relative size of each of U.S. Cellular s geographic market areas to its total consolidated markets and consolidated operating markets, as defined below. The total population of U.S. Cellular s consolidated markets may have no direct relationship to the number of wireless customers or the revenues that may be realized from the operation of the related wireless systems. In addition, population equivalents for investment interests have been provided to allow comparison to the relative size of U.S. Cellular s consolidated markets.

For both consolidated markets and consolidated operating markets, the tables below aggregate the total population within each geographic market area at December 31, 2010, regardless of U.S. Cellular s percentage ownership in the licenses included in such geographic market areas.

Total Consolidated Markets (Including non-operating markets)

Geographic Market Areas	Population (1)	Customers	Penetration	States
Central	64,232,000	3,850,000	6.0%	AL, AR, CO, FL, GA, IA, IL, IN, KS, KY, LA, MI, MN, MO, MS, NE, OH, OK, SD, TX, WI
Mid-Atlantic	19,741,000	1,150,000	5.8%	MD, NC, PA, SC, TN, VA, WV
New England	2,849,000	481,000	16.9%	ME, NH, VT
Northwest	3,161,000	399,000	12.6%	CA, OR, WA
New York	485,000	192,000	39.6%	NY
Total	90,468,000	6,072,000	6.7%	

(1) Represents 100% of the population of the licensed areas which U.S. Cellular consolidates, based on 2009 Claritas population estimates. Population in this context includes only the areas covering such markets and is used only for the purposes of calculating market penetration and is not related to population equivalents, as defined below. It also includes 100% of the population of two licensed areas where U.S. Cellular owns a controlling interest and has contracted with another wireless operator to manage the operations.

Consolidated Operating Markets

Geographic Market Areas	Population (1)	Customers	Penetration	States
Central	32,989,000	3,850,000	11.7%	IA, IL, IN, KS, MI, MN, MO, NE, OH, OK, TX, WI
Mid-Atlantic	7,858,000	1,150,000	14.6%	MD, NC, PA, SC, TN, VA, WV
New England	2,849,000	481,000	16.9%	ME, NH, VT
Northwest	2,365,000	399,000	16.9%	CA, OR, WA
New York	485,000	192,000	39.6%	NY
Total	46,546,000	6,072,000	13.0%	

(1) Represents 100% of the population of the licensed areas which U.S. Cellular consolidates and are in operation, based on 2009 Claritas population estimates. Population in this context includes only the areas covering such markets and is used only for the purposes of calculating market penetration and is not related to population equivalents, as defined below. It also includes 100% of the population of two licensed areas where U.S. Cellular owns a controlling interest and has contracted with another wireless operator to manage the operations.

Investment Markets

The following table summarizes the markets in which U.S. Cellular owns an investment interest at December 31, 2010. For licenses in which U.S. Cellular owns an investment interest, the related population equivalents are shown, defined as the total population of each licensed area multiplied by U.S. Cellular s ownership interest in each such license.

Market Area/Market	Population (1)	Current Percentage Interest (2)	Current Population Equivalents (3)
Los Angeles/Oxnard, CA	18,259,000	5.5%	1,004,000
Oklahoma City, OK	1,164,000	14.6%	170,000
Others (fewer than 100,000 population equivalents each)			345,000
Total population equivalents in investment markets			1,519,000

(1) Represents 100% of the total population of the licensed area in which U.S. Cellular owns an interest based on 2009 Claritas population estimates.
(2) Represents U.S. Cellular s percentage ownership interest in the licensed area as of December 31, 2010.
(3) Current Population Equivalents are derived by multiplying the amount in the Population column by the percentage interest indicated in the Current Percentage Interest column.

Business Development Strategy

U.S. Cellular s business development strategy is to obtain interests in and access to wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. 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. U.S. Cellular may continue to make opportunistic acquisitions or exchanges of markets that further strengthen its operating market areas and in other attractive markets. U.S. Cellular also believes that the acquisition of additional licenses within its operating territories will enhance its network capacity to meet its customers increased

demand for data services. U.S. Cellular seeks to acquire noncontrolling interests in licenses in which it already owns the majority interest and/or operates the license. From time to time, U.S. Cellular has divested outright or included in exchanges for other wireless interests certain consolidated and investment interests that were considered less essential to its operating strategy. As part of this strategy, U.S. Cellular from time to time may be engaged in negotiations relating to the acquisition or exchange of companies, strategic properties or wireless spectrum or the disposition of properties. In addition, U.S. Cellular may participate as a bidder, or member of a bidding group, in auctions for wireless spectrum administered by the FCC.

U.S. Cellular engaged in the following significant transactions to further enhance its operating market areas since 2005.

FCC Auctions. From time to time, the FCC conducts auctions through which additional spectrum is made available for the provision of wireless services. U.S. Cellular has participated in certain prior FCC auctions indirectly through its limited partnership interests. Each entity qualified as a designated entity and thereby was eligible for bidding credits with respect to most licenses purchased in accordance with the rules defined by the FCC for each auction. In most cases, the bidding credits resulted in a 25% discount from the gross winning bid.

Auction 73. The FCC auction of spectrum in the 700 megahertz band closed on March 20, 2008. U.S. Cellular participated in Auction 73 indirectly through its limited partnership interest in King Street Wireless L.P. (King Street Wireless). King Street Wireless paid $300.5 million to the FCC in 2008 for 152 licenses for which it was the successful winning bidder in the auction. These licenses were granted by the FCC in December 2009.

Auction 66. The FCC auction of spectrum in the advanced wireless services (AWS-1) band closed on September 18, 2006. U.S. Cellular participated in Auction 66 indirectly through its limited partnership interest in Barat Wireless L.P. (Barat Wireless). Barat Wireless paid $127.1 million to the FCC in 2006 for 17 licenses for which it was the successful bidder in the auction. These licenses were granted by the FCC in 2007.

Auction 58. The FCC auction of spectrum in the personal communication services (PCS) band closed on February 15, 2005. U.S. Cellular participated in Auction 58 indirectly through its limited partnership interest in Carroll Wireless L.P. (Carroll Wireless). Carroll Wireless paid $129.7 million to the FCC in 2005 for 16 licenses for which it was the successful bidder in the auction. These licenses were granted by the FCC in 2006.

Products and Services

Wireless Services. U.S. Cellular s postpaid customers are able to choose from a variety of national bundled plans with voice, messaging and data pricing that are designed to fit different usage patterns and customer needs. The ability to help a customer find the right pricing plan is central to U.S. Cellular s brand positioning. U.S. Cellular offers national consumer plans that can be tailored to a customer s needs with the addition of various packaged or bundled plans. Many plans enable small work groups or families to share the plan minutes, enabling customers to get more value for their money. Business rate plans are offered to companies to meet their unique needs. U.S. Cellular s popular national plans price all calls, regardless of where they are made or received in the United States, as local calls with no long distance or roaming charges. All incoming calls, texts, and picture messages are free on currently offered plans. Additionally, U.S. Cellular offers prepaid service plans, which include minutes, messaging and data in a variety of ways for a monthly fee.

During the fourth quarter of 2010, U.S. Cellular launched The Belief Project℠, a series of customer-focused initiatives developed to address consumers common frustrations with wireless service and to enhance the customer experience. The Belief Project recognizes customer loyalty with national bundled rate plans and industry-leading benefits without requiring customers to sign continuous contracts, and provides customers with the opportunity for new phones at promotional prices every 18 months. Customers with Belief Plans also automatically get loyalty reward points just for being a customer that can be used for accelerated phone upgrades in as little as 10 months. Points can also be used for other rewards such as additional lines, phones, accessories and ringtones. Phone Replacement, the wireless industry s only such program, allows customers on certain eligible Belief Plans to get a replacement phone of the same or a similar model if their phone is accidentally broken or malfunctioning even if the phone is no longer under warranty. If the customer s phone is lost or stolen, they can receive the same or similar replacement phone for $100. All Belief Plans include Overage Cap, a free service that prevents voice overage charges from exceeding $50 for a National Single Line Belief Plan or $150 for a Family Belief Plan.

U.S. Cellular s growing smartphone portfolio of Android™-powered, BlackBerry® and Windows Mobile® wireless devices are a key part of its strategy to deliver wireless devices which allow customers to stay productive, entertained and connected on the go. Backed by U.S. Cellular s high-speed nationwide third generation Evolution-Data Optimized (3G) network, U.S. Cellular s smartphone messaging, data and internet services allow the customer to access the web, e-mail, social network sites, text, picture and video message, turn-by-turn GPS navigation with Your Navigator/Your Navigator Deluxe, and allow customers the ability to browse and, for Android™ users, download thousands of applications in the Android™ market to customize their wireless device to fit their lifestyle.

U.S. Cellular s **easy**edge℠ brand of enhanced data services uses a Binary Runtime Environment for Wireless (BREW) technology which adds limited computer-like functionality to non-smartphone wireless devices, enabling applications to be downloaded over-the-air directly to the customer s wireless device. These enhanced data services include news, weather, sports information, games, ring tones and other services. U.S. Cellular also offers certain enhanced multimedia services, including Digital Radio, Mobile TV and 3D Gaming, over its 3G network.

U.S. Cellular plans on further expansion of its advanced data services in 2011 and beyond.

Wireless Devices. U.S. Cellular offers a comprehensive range of wireless devices such as handsets, modems and tablets for use by its customers. All of the wireless devices that U.S. Cellular offers are compatible with its Code Division Multiple Access (CDMA) 3G and/or 1XRTT networks and are compliant with the FCC s enhanced wireless 911 (E-911) requirements. In addition, U.S. Cellular offers a wide range of accessories, such as carrying cases, hands-free devices, batteries, battery chargers, memory cards and other items to customers. U.S. Cellular also sells wireless devices to agents and other third-party distributors for resale. U.S. Cellular frequently discounts wireless devices sold to new and current customers and provides discounts on upgraded wireless devices to current customers in response to competition, in order to attract new customers or to retain existing customers by reducing the cost of becoming or remaining a wireless customer. With no contract after the first from The Belief Project, customers who are on Belief Plans and eligible for a wireless device upgrade are able to obtain wireless devices at promotional prices without signing a new contract.

U.S. Cellular has established service facilities in many of its local markets to ensure quality service and repair of the wireless devices it sells. These facilities allow U.S. Cellular to provide convenient and timely repair service to customers who experience device problems. Additionally, U.S. Cellular offers several programs which allow the customer to receive a replacement device through a retail store or through direct mail.

During 2010, U.S. Cellular continued to bolster its expanding smartphone and tablet portfolio with the launch of high-performance AndroidTM-powered wireless devices, such as the Samsung AcclaimTM, an exclusive to U.S. Cellular, Samsung MesmerizeTM (a Galaxy STM smartphone), Samsung Galaxy TabTM, HTC DesireTM, LG ApexTM, and LG Optimus UTM. In addition, U.S. Cellular s smartphone catalog expanded with the addition of several BlackBerry® and Windows Mobile® wireless devices, such as the BlackBerry® CurveTM 9330, BlackBerry® BoldTM, and Samsung ExecTM. U.S. Cellular s competitive smartphone offerings play a significant role in driving data service usage and revenues.

U.S. Cellular purchases wireless devices and accessory products from a number of manufacturers, with the substantial majority of such purchases currently made from Samsung, LG InfoComm, Personal Communications Devices, Research In Motion, Motorola and Superior Communications. U.S. Cellular negotiates volume discounts with its suppliers and works with them in promoting specific equipment in its local advertising. U.S. Cellular does not own significant product warehousing and distribution infrastructure. Instead, it contracts with third party providers for substantially all of its product warehousing, distribution and direct customer fulfillment activities. U.S. Cellular also contracts with third party providers for services related to its Belief Project Rewards and Phone Replacement programs.

U.S. Cellular monitors the financial condition of all of its wireless devices and accessories suppliers. Because U.S. Cellular purchases wireless devices and accessories from numerous suppliers, U.S. Cellular does not expect the financial condition of any single supplier to affect U.S. Cellular s ability to offer a competitive variety of wireless devices and accessories for sale to customers.

Marketing

Customer Acquisition and Retention. U.S. Cellular s marketing plan is focused on acquiring, retaining and growing customer relationships by offering high-quality products and services built around customer needs at fair prices, supported by outstanding customer service. This approach drove the October 1, 2010 launch of The Belief Project. See Products and Services above for further information regarding The Belief Project.

U.S. Cellular operates under a unified brand name and logo, U.S. Cellular, across all its markets. In June 2008, U.S. Cellular launched a new branding campaign, Believe in Something BetterSM. U.S. Cellular believes that creating positive connections with its customers enhances their wireless experience and builds customer loyalty. In addition to the features of the Belief Plans, as mentioned above, U.S. Cellular currently offers several innovative, customer-centric programs and services, at no cost to the customer. Under U.S. Cellular s Battery Swap program, a customer can exchange a battery free of charge that is dead or dying for one that is fully charged. The Overage Protection service provides customers peace-of-mind by receiving text message alerts when they come close to reaching their allowable monthly plan minutes or text messages in order to avoid overage charges. As the FCC considers a proposal that would require carriers to notify customers before they incur excessive charges, U.S. Cellular believes that it was the first to offer this service to all of its customers. My Contacts Backup offers extra security for customers knowing that they can retrieve their contact numbers if they lose or damage their wireless devices. In its January 2011 issue, *Consumer Reports* posted the results of a consumer survey in which U.S. Cellular ranked first in overall satisfaction among all postpaid wireless carriers in the United States. U.S. Cellular was the only carrier to receive top scores in the value, voice, staff knowledge and issue resolved categories. The advantages that consumers cited in ranking U.S. Cellular highest in the industry included our high-speed nationwide network, competitive wireless device line-up and customer-centric programs.

U.S. Cellular increases customer awareness using traditional media such as television, radio, newspaper and direct mail advertising, and emerging media such as the Internet, social media and sponsorships. U.S. Cellular has achieved its current level of penetration of its markets through a combination of a strong brand position, promotional advertising and broad distribution, and has been able to sustain a high customer retention rate based on its high-quality wireless network and outstanding customer service. U.S. Cellular s advertising is directed at attracting and retaining customers, improving potential customers awareness of the U.S. Cellular brand, increasing existing customers usage of U.S. Cellular s services and increasing the public awareness and understanding of the wireless services it offers. U.S. Cellular attempts to select the advertising and promotional media that are most appealing to the targeted groups of potential customers in each local market. U.S. Cellular supplements its advertising with a focused public relations program that drives store traffic, supports sales of products and services, and builds brand awareness and preference. The approach combines national and local media relations in mainstream and social media channels with market-wide activities, events, and sponsorships. Since 2008, U.S. Cellular has focused its giving strategy on the pressing needs of schools and has invested millions of dollars in its education initiatives, such as Calling All Communities and Calling All Teachers, which support schools and teachers in the communities U.S. Cellular serves.

U.S. Cellular historically has maintained a low postpaid customer churn rate by focusing on outstanding customer service through the development of processes that are more customer-friendly, extensive training of frontline sales and support associates and the implementation of retention programs. The marketing plan highlights the value of U.S. Cellular s service offerings and incorporates combinations of rate plans, additional value-added features and services and wireless devices which are designed to meet the needs of customers.

U.S. Cellular currently operates five regional customer care centers with personnel who are responsible for customer service activities, and two national financial services centers with personnel who perform credit and other customer payment activities.

Distribution Channels. U.S. Cellular supports a multi-faceted distribution program, including retail sales and service centers, direct sales, and independent agents in the majority of its markets, plus the website and telesales for customers who wish to contact U.S. Cellular through the internet or by phone.

Company retail store locations are designed to market wireless products and services to the consumer and small business segments in a setting familiar to these types of customers. Retail sales associates work in over 400 U.S. Cellular-operated retail stores and kiosks. Direct sales consultants market wireless service to mid-size business customers. Additionally, the U.S. Cellular website enables customers to activate service and purchase wireless devices online. In late 2009, U.S. Cellular launched enhancements to its website to provide search capabilities, shopping cart functionality and enhance the web order check out process. The launch of The Belief Project in October 2010 brought additional functionality to the on-line purchase process by making it easier to compare wireless devices and plans. The website also shows the value of U.S. Cellular plans compared to its top competitors and provides information on other customer needs.

U.S. Cellular maintains an ongoing training program to improve the effectiveness of retail sales associates and direct sales consultants by focusing their efforts on obtaining customers by facilitating the sale of appropriate packages for the customer s expected usage and value-added services that meet customer needs.

U.S. Cellular has relationships with exclusive and non-exclusive agents, which are independent businesses that obtain customers for U.S. Cellular on a commission basis. At December 31, 2010, U.S. Cellular had contracts with these businesses aggregating over 1,000 locations. U.S. Cellular provides additional support and training to its exclusive agents to increase customer satisfaction for customers they serve. U.S. Cellular s agents are generally in the business of selling wireless devices, wireless service packages and other related products, and include major appliance dealers and car stereo companies. No single agent accounted for 10% or more of U.S. Cellular s operating revenues during the past three years.

U.S. Cellular also markets wireless service through resellers. The resale business involves the sale of wholesale access and minutes to independent companies that package and resell wireless services to end-users. These resellers generally provide prepaid and postpaid services to subscribers under their own brand names and also provide their own billing and customer service. U.S. Cellular incurs no direct subscriber acquisition costs related to reseller customers. At December 31, 2010, U.S. Cellular had approximately 343,000 customers of resellers. For the year ended December 31, 2010, revenues from resale business were less than 1% of total service revenues.

Customers and System Usage

U.S. Cellular provides service to a broad range of customers from a wide array of demographic segments. U.S. Cellular uses a segmentation model to classify businesses and consumers into logical groupings for developing new products and services, direct marketing campaigns, and retention efforts. U.S. Cellular focuses on both retail consumer and business customers, with its business customer focus being on small-to-mid-size businesses in vertical industries such as construction, retail, professional services and real estate. These industries are primarily served through U.S. Cellular s retail and direct sales channels.

U.S. Cellular s main sources of revenues are from its own customers and from customers of competitors who roam on its network. The interconnectivity of wireless service enables a customer who is in a wireless service area other than the customer s home service area (a roamer) to place or receive a call or use data in that service area. U.S. Cellular has entered into reciprocal roaming agreements with operators of other wireless systems covering virtually all systems with CDMA technology in the United States, Canada and Mexico. Roaming agreements offer customers the opportunity to roam on these systems. These reciprocal agreements automatically pre-register the customers of U.S. Cellular s systems in the other carriers systems. In addition, a customer of a participating system roaming in a U.S. Cellular market where this arrangement is in effect is able to make and receive calls or data on U.S. Cellular s system. The charge for this service is negotiated as part of the roaming agreement between U.S. Cellular and the roaming customer s carrier. U.S. Cellular bills this charge to the customer s home carrier, which then may bill the customer. In many instances, based on competitive factors, carriers, including U.S. Cellular, may charge lower amounts to their customers than the amounts actually charged by other wireless carriers for roaming. In 2010, U.S. Cellular enhanced its data roaming services with the addition of nationwide 3G roaming, allowing its customers to access high-speed data across the country.

As indicated above, U.S. Cellular s postpaid customers are able to choose from a variety of bundled national Single Line, Family and Business Shared Belief Plans that offer affordable voice, messaging and data packages designed to fit different usage patterns and needs. All postpaid plans include free incoming calls, unlimited nights and weekends, and unlimited mobile-to-mobile calls between U.S. Cellular customers. U.S. Cellular also offers various prepaid plans which include voice, messaging and data. Additional features provided by U.S. Cellular include caller ID blocking, call forwarding, voicemail, call waiting and three-way calling. Data usage features provided by U.S. Cellular include web browsing, email services, instant messaging, and text, picture and video messaging.

Technology and System Design and Construction

Technology. Wireless communication systems transmit voice, data, graphics and video through the transmission of signals over networks of radio towers using radio spectrum licensed by the FCC. Access to local, regional, national and worldwide telecommunications networks is provided through system interconnections.

U.S. Cellular currently deploys CDMA 1XRTT digital technology throughout virtually all of its networks. Through roaming agreements with other CDMA-based wireless carriers, U.S. Cellular s customers may access CDMA service in virtually all areas of the United States, as well as parts of Canada and Mexico. U.S. Cellular believes that CDMA technology offers advantages compared to the other second generation digital technologies, including greater spectral efficiency as well as better call quality. Another digital technology, Global System for Mobile Communication (GSM), has a larger installed base of customers worldwide. Since CDMA technology currently is not compatible with GSM technology, U.S. Cellular customers with CDMA-only based wireless devices are currently not able to use their wireless devices when traveling through areas serviced only by GSM-based networks. However, both CDMA and GSM technology are expected to be succeeded by fourth generation Long-Term Evolution (LTE) technology over the next several years, which is expected to result in most CDMA and GSM carriers having compatible technologies once they converge to LTE.

A high-quality network, supported by continued investments in that network, will remain an important factor for wireless companies to remain competitive. U.S. Cellular continually reviews its long-term technology plans. Since 2006, U.S. Cellular has offered services based on 3G technology. This technology, which increases the speed of data transmissions on the wireless network, is deployed by certain other wireless companies. As of December 31, 2010, U.S. Cellular deployed 3G technology that covered approximately 98% of its customers.

U.S. Cellular selected LTE technology as its approach to address demand for services enabled by fourth generation wireless technology. In late 2009, U.S. Cellular began technical trials of LTE in support of gaining knowledge of the customer benefits and technical expertise and anticipates completing these trials in 2011. U.S. Cellular has been working with several LTE vendors and plans on completing vendor selection in 2011. As described in Business Development Strategy above, U.S. Cellular participated in spectrum auctions indirectly through its interests in King Street Wireless, Barat Wireless and Carroll Wireless, collectively, the limited partnerships. The limited partnerships were awarded spectrum licenses in FCC Auctions 73, 66 and 58. U.S. Cellular currently plans to make initial deployments of LTE in late 2011 or early 2012 and expand the deployment of LTE in 2012 and beyond. These deployment plans may utilize the spectrum licenses held by the limited partnerships. U.S. Cellular has been in discussions with the general partner of the limited partnerships as plans to deploy LTE are developed. Fourth generation technologies, such as WiMax and LTE, have been deployed in certain U.S. markets by other wireless carriers. LTE is expected to have a global market, resulting in greater worldwide compatibility and cost efficiency compared to WiMax.

System Design and Construction. U.S. Cellular designs and constructs its systems in a manner it believes will permit it to provide high-quality service to substantially all types of wireless devices that are compatible with its network technology. Designs are based on engineering studies which relate to specific markets. Such engineering studies are performed by U.S. Cellular personnel or third-party engineering firms. Network reliability is given careful consideration and extensive backup redundancy is employed in many aspects of U.S. Cellular s network design. Route diversity, ring topology and extensive use of emergency standby power are also utilized to enhance network reliability and minimize service

disruption from any particular network element failure.

In accordance with its strategy of building and strengthening its operating market areas, U.S. Cellular has selected high-capacity digital wireless switching systems that are capable of serving multiple markets through a single mobile telephone switching office. U.S. Cellular s wireless systems are designed to facilitate the installation of equipment that will permit microwave interconnection between the mobile telephone switching office and the cell sites. U.S. Cellular has implemented such microwave interconnection in many of the wireless systems it operates. In other areas, U.S. Cellular s systems rely upon wireline telephone connections to link cell sites with the mobile telephone switching office. Although the installation of microwave network interconnection equipment requires a greater initial capital investment, a microwave network enables a system operator to reduce the current and future charges associated with leasing backhaul capacity from a wireline telephone company.

U.S. Cellular believes that currently available technologies and appropriate capital additions will allow sufficient capacity on its networks to meet anticipated demand for voice and data services over the next few years. U.S. Cellular s continued investment in new licenses will support future demand for fourth generation broadband services using LTE. Increasing demand for high-speed data and video services may require the acquisition of additional licenses or spectrum to provide sufficient capacity in markets where U.S. Cellular currently offers or may offer these services.

Construction of wireless systems is capital-intensive, requiring substantial investment for land and improvements, buildings, towers, mobile telephone switching offices, cell site equipment, microwave equipment, engineering and installation. U.S. Cellular primarily uses its own personnel to engineer each wireless system it owns and operates, and engages contractors to construct the facilities.

The costs (inclusive of the costs to acquire licenses) to develop the systems in which U.S. Cellular owns a controlling interest have historically been financed primarily through proceeds from debt and equity offerings, with cash generated by operations, and proceeds from the sales of wireless interests. U.S. Cellular expects to meet its funding requirements for the foreseeable future with cash on hand, investments, cash generated by operations and funds available under its revolving credit facility. U.S. Cellular also may have access to public and private capital markets to help meet its long-term financing needs.

Competition

The wireless telecommunication industry is highly competitive. U.S. Cellular competes directly with several wireless service providers in each of its markets. U.S. Cellular generally competes against each of the national wireless companies: Verizon Wireless, AT&T Mobility, Sprint Nextel, and T-Mobile USA. These competitors have substantially greater financial, technical, marketing, sales, purchasing and distribution resources than U.S. Cellular. In addition, in certain markets, U.S. Cellular competes against other regional wireless companies, including Leap Wireless International, and resellers of wireless services. Since U.S. Cellular s competitors do not disclose their subscriber counts in specific regional service areas, market share for the competitors in each regional market cannot be precisely determined.

Since each of these competitors operates on systems using spectrum licensed by the FCC and has comparable technology and facilities, competition among wireless service providers for customers is principally on the basis of types of products and services, price, size of area covered, call quality, network speed and responsiveness of customer service. U.S. Cellular employs a customer satisfaction strategy throughout its markets that it believes has contributed to its overall success.

Wireless service providers continue to use wireless device availability and pricing to gain a competitive advantage, since almost everyone who wants and can afford a wireless device already has one. The wireless device has become more than just a means for communication. Consumers attitudes have shifted, and continue to shift, and a wireless device becomes more important year after year as it expands to become the primary communication link to the world as well as a personal entertainment center and source of information. The availability of wireless devices on an exclusive basis to certain carriers provides them with a competitive advantage. As penetration in the industry increases over the next few years, U.S. Cellular believes that customer growth will be achieved primarily by capturing customers switching from other wireless carriers or increasing the number of multi-device users rather than by adding users that are new to the industry.

The use of national advertising and promotional programs by the national wireless service providers may be a source of additional competitive and pricing pressures in all U.S. Cellular markets, even if those operators may not provide direct service in a particular market. In addition, in the current wireless environment, U.S. Cellular s ability to compete depends on its ability to offer family and national calling plans. U.S. Cellular provides wireless services comparable to the national competitors, but the national wireless companies operate in a wider geographic area and are able to offer no- or low-cost roaming and long-distance calling packages over a wider area on their own networks than U.S. Cellular can offer on its network. When U.S. Cellular offers the same calling area as one of these competitors, U.S. Cellular incurs roaming charges for calls made in portions of the calling area which are not part of its network, thereby increasing its cost of operations. U.S. Cellular depends on roaming agreements with other wireless carriers to provide voice and data roaming capabilities in areas not covered by U.S. Cellular s network.

Bundled offerings, in the form of triple plays and quadruple plays (combination of cable or satellite television service, high-speed Internet, wireline service, and wireless service), are common among some of U.S. Cellular s competitors. In addition, wireless carriers and others are beginning to roll out new or enhanced technologies to better meet the needs of the anytime, anywhere consumer. Convergence is taking place on many levels, including dual-mode wireless devices that act as wireline or wireless devices depending on location and the incorporation of wireless hot spot technology in wireless devices for improved in-building coverage and for making Internet access seamless regardless of location. Although less directly a substitute for other wireless services, wireless data services such as Wi-Fi may be adequate for those who do not need full mobility wide area roaming or full two-way voice services. Technological advances or regulatory changes in the future may make available other alternatives to wireless service, thereby creating additional sources of competition.

U.S. Cellular s approach in 2011 and in future years will be to focus on the unique needs and attitudes towards wireless service of its selected target segments. U.S. Cellular will deliver selected, targeted high quality products and services at fair prices and will continue to differentiate itself through the customer experience and service quality. The customer-centric features of the Belief Project, an award-winning network and cutting-edge wireless devices all represent examples of how U.S. Cellular believes it is differentiating itself from competitors as it relates to the customer experience. U.S. Cellular s ability to compete successfully in the future will depend upon its ability to anticipate and respond to changes related to new service offerings, customer preferences, competitors pricing strategies, technology, demographic trends, economic conditions and access to adequate spectrum resources.

Regulation

Regulatory Environment. U.S. Cellular s operations are subject to FCC and state regulation. The wireless licenses that are held by U.S. Cellular and by the designated entities in which U.S. Cellular owns a non-controlling interest are granted by the FCC for the use of radio frequencies and are an important component of the overall value of U.S. Cellular s consolidated assets. The construction, operation and transfer of wireless systems in the United States are regulated to varying degrees by the FCC pursuant to the Communications Act of 1934 (Communications Act). In 1996, Congress enacted the Telecommunications Act of 1996 (Telecommunications Act), which amended the Communications Act. The Telecommunications Act mandated significant changes in telecommunications rules and policies to promote competition, ensure the availability of telecommunications services to all parts of the United States and streamline regulation of the telecommunications industry to remove regulatory burdens, as competition develops. The FCC has promulgated regulations governing construction and operation of wireless systems, licensing (including renewal of licenses) and technical standards for the provision of wireless services under the Communications Act, and is implementing the legislative objectives of the Telecommunications Act, as discussed below.

Licensing Wireless Service. Various wireless licenses are granted by the FCC based on various geographic areas. The completion of acquisitions, involving the transfer of control of all or a portion of a wireless system, requires prior FCC approval. The FCC determines whether an acquisition of wireless licenses is in the public interest on a case-by-case basis.

The Communications Act also requires the FCC to award new licenses for most commercial wireless services through a competitive bidding process in which spectrum is awarded to bidders in an auction. From time to time, the FCC conducts auctions through which additional spectrum is made available for the provision of wireless services. U.S. Cellular has participated in such auctions in the past and is likely to participate in any other auctions conducted by the FCC in the future as an applicant or as a non-controlling partner in another auction applicant. FCC anti-collusion rules place certain restrictions on business communications and disclosures by participants in an FCC auction.

Licensing Facilities. The FCC must be notified each time an additional cell site for a cellular system is constructed which enlarges the service area of a given cellular system. Other types of wireless authorizations (i.e. PCS, 700 MHz, etc.) are issued for geographic areas subject to percentage coverage requirements. U.S. Cellular believes that its facilities are in compliance with these requirements.

Licensing Commercial Mobile Radio Service. Pursuant to the 1993 amendments to the Communications Act, cellular, personal communications, advanced wireless, and 700 megahertz services are classified as commercial mobile radio service, in that they are services offered to the public for a fee and are interconnected to the public switched telephone network. The FCC has determined that it will not require carriers providing such services to comply with a number of statutory provisions otherwise applicable to common carriers, such as the filing of tariffs. All commercial mobile radio service wireless licensees must satisfy specified coverage requirements. Licensees which fail to meet the coverage requirements may be subject to forfeiture of their licenses.

Wireless licenses are generally granted for a ten year term or, in some cases, for fifteen years. The FCC has established standards for conducting comparative renewal proceedings between a wireless licensee seeking renewal of its license and challengers filing competing applications. All of U.S. Cellular s licenses for which it applied for renewal between 1995 and 2010 have been renewed. In 2010, the FCC released a Notice of Proposed Rulemaking (NPRM) regarding wireless services comparative renewal proceedings. Pursuant to the NPRM, the FCC would establish criteria by which it would determine whether a wireless licensee was entitled to license renewal. The proposed changes have been opposed by most wireless carriers, including U.S. Cellular. It is, however, likely that the FCC will take some action to modify the license renewal process.

U.S. Cellular conducts and plans to conduct its operations in accordance with all relevant FCC rules and regulations and anticipates being able to qualify for renewal expectancy in its upcoming renewal filings whatever renewal criteria are applied. Accordingly, U.S. Cellular believes that current and prospective regulations will have no significant effect on the renewal of its licenses. However, changes in the regulation of wireless operators or their activities and of other mobile service providers or changes in the FCC s renewal requirements could have a material adverse effect on U.S. Cellular s operations.

E-911. The FCC has imposed E-911 regulations on wireless carriers. The rules require wireless carriers to provide different levels of detailed location information about E-911 callers depending on the capabilities of the local emergency call center. U.S. Cellular is in compliance with the FCC s requirements regarding E-911.

Recovery Act. In 2009, Congress enacted the American Recovery and Reinvestment Act of 2009, or the Recovery Act, which provides, among other things, for an aggregate appropriation of $7.2 billion to fund grants and loans to provide broadband infrastructure, access and equipment to consumers residing in rural, unserved or underserved areas of the United States. U.S. Cellular has not received any grants of Recovery Act funds. The distribution of Recovery Act funds to other telecommunications service providers could impact competition in certain of U.S. Cellular s service areas.

National Broadband Plan. In 2009, Congress directed the FCC to develop a National Broadband Plan (the Plan) to ensure every American has access to broadband capability. In March 2010, the FCC released the plan which describes the FCC s goals in enhancing broadband availability and the methods for achieving those goals over the next decade. Among the recommendations in the Plan which are significant to wireless providers are a series of proposals to make up to 500 MHz of spectrum newly available for broadband wireless uses by 2020, with a benchmark of making 300 MHz available by 2015, to reserve additional spectrum for unlicensed wireless use and to make more spectrum available for opportunistic and secondary uses. The Plan also made recommendations for transitioning over time the Universal Service Fund (USF) from supporting voice networks to broadband networks. On February 8, 2011 the FCC issued a NPRM seeking comment on proposals to revamp the USF and provide support for broadband deployment and for reforming the existing intercarrier compensation regime. Reform of the existing intercarrier compensation regime - the means by which carriers pay or are compensated for originating and terminating traffic - may result in reductions of intercarrier compensation paid by carriers over time. While the timing is uncertain, the FCC has indicated that it expects to issue an order in this docket before the end of this year.

The FCC notes that about one-half of the Plan will be addressed by the FCC, while the remainder will be addressed by Congress, the Executive Branch and state and local governments working closely with private and non-profit sectors. U.S. Cellular cannot predict the outcome of these deliberations or what effects any final rules, regulations or laws may have on its ability to compete in the provision of wireless broadband services to its customer base. Changes in regulation or the amount or distribution from the USF to U.S. Cellular and other telecommunications service providers could impact competition in certain of U.S. Cellular s service areas, and could have a material adverse effect on U.S. Cellular s business, financial condition or results of operations.

Incremental Charges. In October, 2010, the FCC released a NPRM proposing that wireless carriers, among other things, be required to alert customers when they approach and reach usage limits for voice and data services which, if exceeded, would result in extra charges beyond the customer s rate plan. This would result in increased regulatory burdens for wireless carriers, including U.S. Cellular. Although U.S. Cellular already offers Overage Cap and Overage Protection services as described above there is no assurance that such services will comply with future FCC rulemaking in this area.

Telecommunications Act General. The primary purpose and effect of the Telecommunications Act is to open all telecommunications markets to competition. The Telecommunications Act makes most direct or indirect state and local barriers to competition unlawful. It directs the FCC to preempt all inconsistent state and local laws and regulations, after notice and comment proceedings. It also enables electric and other utilities to engage in telecommunications service through qualifying subsidiaries.

Only narrow powers over wireless carriers are left to state and local authorities. Each state retains the power to impose competitively neutral requirements that are consistent with the Telecommunications Act s universal service provisions and necessary for universal services, public safety and welfare, continued service quality and consumer rights. While a state may not impose requirements that effectively function as barriers to entry, it retains limited authority to regulate certain competitive practices in rural telephone company service areas.

The Telecommunications Act establishes principles and a process for implementing a modified universal service policy. This policy seeks nationwide, affordable service and access to advanced telecommunications and information services. It calls for reasonably comparable urban and rural rates and services. The Telecommunications Act also requires universal service to schools, libraries and rural health facilities at discounted rates. Wireless carriers must provide such discounted rates to such organizations in accordance with federal regulations. The FCC has implemented the mandate of the Telecommunications Act to create a universal service support mechanism to ensure that all Americans have access to telecommunications services. The Telecommunications Act requires all interstate telecommunications providers, including wireless service providers, to make an equitable and non-discriminatory contribution to support the cost of providing universal service, unless their contribution would be *de minimis*. At present, the provision of wireline and wireless telephone service in high cost areas is subsidized by support from the USF to which all carriers with interstate and international revenues must contribute. Carriers are free to pass on such contributions to their customers. In 2010, U.S. Cellular contributed $112 million into the federal universal service fund and passed on such contributions to its customers.

Wireless carriers also are eligible to receive universal service support payments in certain circumstances if they provide specified services in high cost areas. U.S. Cellular has sought designation as an eligible telecommunications carrier (ETC) qualified to receive universal service support in a number of states. To date, U.S. Cellular has been designated as an ETC in the states of Illinois, Iowa, Kansas, Maine, Missouri, Nebraska, New Hampshire, New York, North Carolina, Oklahoma, Oregon, Tennessee, Virginia, Washington, Wisconsin and West Virginia. In 2010, U.S. Cellular received approximately $144 million in high cost support for its service to high cost areas in these states.

In May 2008, the FCC adopted a state-by-state temporary cap to funding for competitive ETCs based on the funding level available as of March 31, 2008. The imposition of the cap has had the effect of reducing the amount of support that U.S. Cellular would otherwise have been eligible to receive. The funding level under the cap is undergoing revision because of the time lag in the reporting of some cost inputs by local exchange carriers which is used in part to determine the amount of per line support that wireless ETCs are entitled to receive. This revision may further reduce funding under the cap and may result in the need to refund some payments that U.S. Cellular has received in excess of the revised cap amount. In October 2010, the FCC proposed creating a $100-300 million Mobility Fund to subsidize on a one time basis new wireless broadband development in unserved areas with subsidies awarded to low bidders under a reverse auction mechanism. On February 8, 2011, the FCC issued a NPRM to consider reform of the USF program and intercarrier compensation regime in response to the issuance of the National Broadband Plan in March 2010. Creation of the Mobility Fund and adoption of a USF reform proposal by the FCC to transition support from voice networks to broadband networks could have a significant and adverse impact on the amount of support, if any, wireless ETCs continue to receive. Reform of the existing intercarrier compensation regime - the means by which carriers pay or are compensated for originating and terminating traffic - may result in reductions of intercarrier compensation paid by carriers over time. The ultimate outcome and timing of these proceedings is unknown at this time.

In 2009, the FCC initiated a rulemaking proceeding designed to codify its existing Net Neutrality principles and impose new requirements that could have the effect of restricting the ability of wireless internet service providers to manage applications and content that traverse their networks. In December, 2010, after a lengthy proceeding, which considered different approaches, including the reclassification of internet access as common carrier service under Title II of the Communications Act, the FCC adopted a net neutrality rule based on its Title I ancillary authority to enforce different parts of the Communications Act. The rule requires all providers of broadband internet access, including both fixed (that is, telephone and cable) and wireless providers, to publicly disclose accurate information regarding their network management practices, performance and commercial terms sufficient for consumers to make informed choices regarding the use of such services. The rule also prohibits all internet providers from blocking consumers access to lawful websites, subject to reasonable network management, and from blocking applications that compete with the provider s voice or video telephony services, also subject to reasonable network management. The rule subjects the providers of fixed but not wireless broadband internet access to a prohibition on unreasonable discrimination in transmitting internet traffic over their networks, also subject to reasonable network management. The exemption of wireless providers from this part of the rule reflects a recognition of the capacity constraints and other special conditions under which mobile broadband service is offered and the competitive nature of evolving wireless networks. Thus the FCC at this time considered it appropriate to take only the measured steps with respect to mobile broadband service reflected in the rule. The order is generally controversial and has been challenged in the courts. U.S. Cellular cannot predict the outcome of such cases.

State and Local Regulation. U.S. Cellular is also subject to state and local regulation in some instances. In 1981, the FCC preempted the states from exercising jurisdiction in the areas of licensing, technical standards and market structure. In 1993, Congress preempted states from regulating the entry of wireless systems into service and the rates charged by wireless systems to customers. The siting and construction of wireless facilities, including transmitter towers, antennas and equipment shelters are still subject to state or local zoning and land use regulations. However, in 1996, Congress amended the Communications Act to provide that states could not discriminate against wireless carriers in tower zoning proceedings and had to decide on zoning requests with reasonable speed. In addition, states may still regulate other terms and conditions of wireless service.

In 2000, the FCC ruled that the preemption provisions of the Communications Act do not preclude the states from acting under state tort, contract, and consumer protection laws to regulate the practices of commercial mobile radio service carriers, even if such activities might have an incidental effect on wireless rates. This ruling has led to more state regulation of commercial mobile radio service carriers, particularly from the standpoint of consumer protection. U.S. Cellular intends to comply with state regulation and to seek reasonable regulation of its activities in this regard.

The FCC is required to forbear from applying any statutory or regulatory provision that is not necessary to keep telecommunications rates and terms reasonable or to protect consumers. A state may not apply a statutory or regulatory provision that the FCC decides to forbear from applying. In addition, the FCC must review its telecommunications regulations every two years and change any that are no longer necessary. Further, the FCC is empowered under certain circumstances to preempt state regulatory authorities if a state is obstructing the Communications Act s basic purposes.

U.S. Cellular and its subsidiaries have been and intend to remain active participants in proceedings before the FCC and state regulatory authorities. Proceedings with respect to the foregoing policy issues before the FCC and state regulatory authorities could have a significant impact on the competitive market structure among wireless providers and the relationships between wireless providers and other carriers. U.S. Cellular is unable to predict the scope, pace or financial impact of policy changes which could be adopted in these proceedings.

Radio Frequency Emissions. The FCC has adopted rules specifying standards and the methods to be used in evaluating radio frequency emissions from radio equipment, including network equipment and wireless devices used in connection with commercial mobile radio service. These rules were upheld on appeal by the U.S. Court of Appeals for the Second Circuit in 2000. The U.S. Supreme Court declined to review the Second Circuit s ruling. U.S. Cellular s network facilities and the wireless devices it sells to customers comply with these standards.

TDS Telecom Operations

General

TDS wireline operations are conducted through its wholly owned subsidiary TDS Telecom which is headquartered in Madison, Wisconsin. TDS Telecom provides local and long-distance voice service, high-speed data services, network access and video services, to rural and suburban communities. TDS Telecom has two reportable segments: (i) incumbent local exchange carrier (ILEC) wireline operations and (ii) competitive local exchange carrier (CLEC) wireline operations.

TDS Telecom served 767,200 equivalent access lines through 115 ILEC subsidiaries in 28 states and 335,400 equivalent access lines as a CLEC in 5 states as of December 31, 2010.

The table below lists the ten states with the largest number of customers that TDS Telecom operates in based on the number of equivalent access lines and the percentage of the total number of equivalent access lines operated by all of the telephone exchange service subsidiaries of TDS Telecom.

State	Number of Equivalent Access Lines (1) December 31, 2010	Percent of Total
Wisconsin	344,200	31%
Michigan	119,800	11%
Tennessee	108,900	10%
Minnesota	96,500	9%
Georgia	58,200	5%
New Hampshire	45,000	4%
Indiana	38,700	4%
Alabama	29,700	3%
Maine	27,900	2%
Illinois	27,000	2%
Total for 10 Largest States	895,900	81%
Other States	206,700	19%
Total	1,102,600	100%

(1) Equivalent access lines are the sum of physical access lines and high-capacity data lines adjusted to estimate the equivalent number of physical access lines in terms of capacity, plus the number of managedIP stations. A physical access line is the individual circuit connecting a customer to a telephone company s central office facilities.

The following table summarizes additional information regarding TDS Telecom s ILEC and CLEC customer operations for the past three years:

	December 31,		
	2010	2009	2008
ILEC			
Equivalent access lines	767,200	775,900	776,700
% Residential	77.8%	76.1%	76.7%
% Business	22.2%	23.9%	23.3%
Physical access lines	507,700	536,300	566,200
High speed data customers (1)	227,700	208,300	178,300
managedIP stations (2)	3,600	1,900	600
Long-distance customers	370,100	362,800	347,000
CLEC			
Equivalent access lines	335,400	355,900	393,000
% Residential	16.9%	20.9%	25.3%
% Business	83.1%	79.1%	74.7%
High speed data customers (1)	33,100	36,900	40,800
managedIP stations (2)	23,800	12,000	2,100

(1) The number of customers provided high-capacity data circuits via various technologies, including digital subscriber lines (DSL), managed Internet Protocol (managedIP) and dedicated Internet circuit technologies.

(2) The number of telephone handsets providing communications using packet networking technology.

Business Strategy and Competition

TDS Telecom s strategy is to be the preferred provider of voice, high-speed data, and video services to consumers and also to offer a wide range of IP-based voice and data services to businesses in its chosen markets. TDS Telecom seeks to protect and grow revenue streams by providing its customers with high-quality products that meet or exceed their needs and to outperform the competition by maintaining superior customer service. TDS Telecom pursues new service and product development to introduce innovative services to its customers that can be leveraged by both its ILEC and CLEC operations. In addition, TDS Telecom seeks to grow through strategic acquisitions such as the two Hosted and Managed Services companies purchased during 2010. TDS Telecom is actively investing in the continuing transformation of its networks as it works to deploy advanced technologies and new services. TDS Telecom seeks to capitalize on its strong local presence and strives to champion economic development in its communities by actively advocating with respect to state and federal regulatory frameworks that would enable its operations to grow profitably and continue to meet customer expectations for new and improved services.

The competitive environment in the telecommunications industry has changed significantly as a result of technological advances, changing customer requirements and changes to regulation. TDS Telecom continues to seek to develop and maintain an efficient cost structure to ensure that it can match price-based initiatives from competitors. Both ILECs and CLECs are faced with significant challenges, including competition from cable television, wireless and other wireline providers, decreases in intercarrier compensation for the use of owned networks, increases in the cost for use of other providers networks, and technologies such as Voice over Internet Protocol (VoIP). These challenges could have a material adverse effect on the financial condition, results of operations and cash flows of TDS Telecom.

Products, Services and Revenue Sources

TDS Telecom generates revenues by providing to consumers, carriers and businesses:

- Voice services, which include basic local and long-distance telephone service and enhanced local services like voice mail, caller ID and call forwarding;

- Broadband services, including DSL and other forms of high-speed Internet and other enhanced data services;

- Network access services to interexchange carriers for the origination and termination of interstate and intrastate long distance phone calls on TDS Telecom s network and special access services to carriers and others;

- Hosted and Managed Services including colocation, dedicated hosting, and cloud computing services; and

- Satellite and terrestrial video.

TDS Telecom operates in a mix of rural, small town and suburban ILEC markets and urban CLEC markets, with the largest concentrations of customers in the Upper Midwest and the Southeast. TDS Telecom provides retail telecommunications services to both residential and business customers that reside within their respective service territories. Wholesale customers are primarily interexchange carriers (companies that provide long-distance telephone and data services between local exchange areas) that compensate TDS Telecom for providing services in connection with the use of its facilities to originate and terminate their interstate and intrastate voice and data transmissions.

TDS Telecom s consumer operations provide residential wireline local telephone service, access to the long-distance network, high-speed data products and video which is principally offered through a resale agreement with a satellite provider. Long-distance service is provided by TDS Telecom s own long-distance unit that resells long-distance service in its ILEC markets and through connections with long-distance carriers which purchase network access from the TDS Telecom ILECs. Consumer operations account for 59% of TDS Telecom s equivalent access lines and 35% of total revenue, with ILEC operations representing the majority with 91% of the consumer equivalent access lines. As of December 31, 2010, approximately 84% of TDS Telecom s ILEC residential customers are located in rural and small town areas, while the other 16% are located in more suburban markets.

TDS Telecom s commercial customer operations provide high-quality voice and data solutions including local and long-distance telephone service, broadband, Internet Protocol-based services, and other services to businesses ranging in size from 1-2 customers to large corporations. The TDS Telecom flagship product is managedIP, a fully-hosted, software and hardware solution that provides customers with a secure Internet connection and the latest VoIP features and capabilities. This product is available in all CLEC markets and many of the ILEC markets, with managedIP available to 70% of ILEC commercial customers at the end of 2010.

TDS Telecom continues to provide a high level of service to traditional interexchange carrier wholesale customers such as AT&T, Verizon and Sprint. TDS Telecom s wholesale market focus is on access revenues which is the compensation received for carrying interstate and intrastate long distance and data traffic on its networks. Access services generated $272 million, or approximately 44% of TDS Telecom s ILEC revenue for the year ended December 31, 2010. The interstate and intrastate access rates charged include the cost of providing service plus a fair rate of return on the plant investment used to provide such service. Recent and proposed regulatory changes and mergers may affect the amounts of TDS Telecom s ILEC wholesale revenues. Both states and the FCC are currently examining regulated forms of access and accompanying compensation, however, the prospect for action is uncertain. See Incumbent Local Exchange Carrier Regulation below.

New and Developing Technologies

An important component of TDS Telecom s business strategy is to develop high-growth services, particularly IP-based, broadband services. To position itself as a full-service broadband services provider to both residential and commercial customers, TDS Telecom will add bandwidth, introduce managed network security applications and continue to transition to VoIP, where voice is another application on the broadband pipe. TDS Telecom is implementing a suite of IP-based, broadband services in selected markets and upgrading the technology where network based services are already deployed. New products and services are in various stages of research and development or deployment including:

- As a part of its strategy to compete for Triple Play (voice, high-speed Internet and video) customers, TDS Telecom currently offers Internet Protocol television (IPTV) in two ILEC markets as a result of a trial first launched in 2008. TDS Telecom believes improving network technologies enabled by its Super High Speed Data initiative and improvements in the cost to provide the service make it viable to expand IPTV video to additional markets. Offering IPTV will establish TDS Telecom as a direct video provider in its markets and help drive the development of additional IP based consumer communication and entertainment products connecting customers in integrated home networks.

- TDS Telecom will extend additional managed service offerings such as a managedIP / Private Branch Exchange (PBX), a customer premise based solution, which in addition to standard PBX functionality can include WI-FI support, Virtual Private Network and firewall service. TDS Telecom will be providing 24x7x365 proactive management and monitoring of the system in conjunction with a third party vendor.

- In 2011, TDS Telecom plans to launch a Session Initiation Protocol (SIP) trunking solution that delivers connectivity and provides advanced functionality based upon a VoIP platform in all CLEC and ILEC markets that have managedIP available. This service will provide an upgrade path for PBX, key system and voice telephone customers to add many of the advanced features formerly only available to managedIP customers.

- During 2010 TDS Telecom began offering a Multi-Protocol Label Switching (MPLS) product which enables TDS Telecom to offer a private managed network to businesses that have more than one location. The service includes the delivery and management of customer premises MPLS routers, proactive monitoring, and customer level reporting.

- Commercial customers desiring to outsource portions of their IT infrastructure provide an opportunity to leverage TDS Telecom competencies in technology and network management, and in the delivery of highly reliable commercial service, into TDS Telecom s Hosted and Managed Services business.

Business Development Strategy

Since January 1, 2006, TDS Telecom has acquired four ILECs that at the dates of their purchases served a total of 26,600 equivalent access lines for an aggregate consideration totaling $71 million in cash.

In 2010 TDS acquired two Hosted and Managed Service companies which provide a wide range of information technology solutions, including colocation, dedicated hosting, and cloud computing services to businesses of all sizes. Total consideration paid for these acquisitions was $66 million in cash. These acquisitions provide a strong set of complementary network and IT-based services that TDS Telecom can offer to both current as well as new customers. These companies are included in TDS Telecom s ILEC segment.

TDS Telecom may make opportunistic acquisitions of operating telephone companies, customers, or related service businesses. TDS Telecom s acquisition strategy is to focus on geographic clustering of telephone companies to achieve cost economies and to complement TDS Telecom s product and services growth strategy. In support of its Hosted and Managed Service growth strategy additional acquisition opportunities in this segment will also be evaluated. While management believes that it will be successful in making additional acquisitions, there can be no assurance that TDS or TDS Telecom will be able to negotiate additional acquisitions on terms acceptable to them or that regulatory approvals, where required, will be received.

Incumbent Local Exchange Carrier Segment

TDS Telecom was the seventh largest local exchange telephone company in the United States as of December 31, 2010. This ranking was based on the number of physical telephone access lines served and excludes the telephone operations of cable television companies. All of TDS Telecom s access lines are served by digital switching technology, which, in conjunction with other technologies, allows TDS Telecom to offer additional premium services to its customers.

Incumbent Local Exchange Carrier Market Strategy

Central to the ILEC market strategy is providing a high quality network, superior customer service, offering a full complement of services with value-added bundles and packages, and building brand equity in TDS Telecom. TDS Telecom distinguishes itself with the high-level of customer service offered to its customers. TDS Telecom operates ILEC companies in 28 states with professional field service representatives who both live and work in many of the communities they serve. To better meet the changing needs of its customers, TDS Telecom utilizes

specialized customer service teams to more effectively and efficiently serve the individual needs of its retail customer segment.

Management of TDS Telecom believes that its residential and business customers have a strong preference to purchase complementary telecommunications services from a single provider. TDS Telecom has found that by offering and bundling services in customer-friendly packages, it can build customer loyalty and reduce customer churn. TDS Telecom offers bundles which include local telephone services, high-speed data services, long-distance services and video services.

TDS Telecom s objective is to be the preferred broadband provider in its ILEC markets by offering a wide range of premium Internet services. It continues to invest in DSL and as of December 31, 2010, was able to provide this service to 93% of its ILEC access lines. At that date, 76% of its ILEC DSL customers had 3 megabits per second or faster service.

TDS Telecom has continued to expand its presence in the business broadband market with high-speed symmetrical dedicated broadband, hosted-managed Internet Protocol telephony, point-to-point Ethernet and Hosted and Managed Services. ManagedIP delivers business customers a converged voice and data communications solution to the desktop. Point-to-point Ethernet provides customers secure and reliable high-speed data links for two or more locations over TDS Telecom s internal network, not the public Internet. Hosted and Managed Services provides customers with colocation, dedicated hosting and cloud computing services.

Most ILEC business customers could be described as small to medium-sized businesses or small office/home office customers. TDS Telecom focuses its marketing on information-intensive industries such as financial services, health services, real estate, hotels and motels, education and government. TDS Telecom uses its direct sales force, targeted mailings, and telemarketing to sell products and services to the commercial markets, which are segmented into tiers based on size (in terms of both lines and revenues) and strategic importance. Different sales and distribution channels are targeted at each segment.

TDS Telecom has continued to grow its long-distance product line and is the number one long-distance provider for its local service customers in its ILEC territories. Seventy-three percent of TDS ILEC physical access lines have a TDS long-distance product at December 31, 2010.

Incumbent Local Exchange Carrier Technology

TDS Telecom is responding to the rapid changes in the telecommunications marketplace by providing its customers with high-quality telecommunications services quickly and building its network to take advantage of a full complement of advanced telecommunications technologies. TDS Telecom continues its program of transitioning to a highly reliable, next generation Internet Protocol (IP) based broadband network by focusing on three areas: the data network, the voice network and the last mile infrastructure.

During 2010, TDS Telecom substantially completed the inter-regional core network interconnecting eight regional hub sites in ILEC and CLEC markets and carriers in Chicago and New York. This transformation of the data network routing infrastructure allows TDS Telecom to reach 78% of its access lines with its 10 Gig core network.

As a part of its strategy to provide higher data speed TDS Telecom has pursued a plan to deploy passive optical network technology, which enables significantly greater broadband speeds, to new residential subdivisions and to commercial customers when the investment is economically justified. With the new availability of second generation Very-high-data-rate Digital Subscriber Line (VDSL2) technology, the transformation of the original last mile copper infrastructure can be accelerated with reduced capital investment. TDS Telecom will continue to pursue a copper and fiber strategy to meet target speeds of at least 25 megabits per second (Mbps.)

As TDS Telecom continues to upgrade and expand its network, it is also standardizing equipment and processes to increase efficiency in maintaining the legacy network. For example, TDS Telecom utilizes centralized monitoring and management of its network to reduce costs and improve service reliability. Network standardization has supported TDS Telecom in operating its 24-hours-a-day / 7-days-per-week Network Management Center, which continuously monitors the network in an effort to proactively identify and correct network faults prior to any customer impact.

Incumbent Local Exchange Carrier Competition

TDS Telecom has experienced physical access line losses and access minutes declines due to competition from cable providers offering voice (VoIP) and data services via cable modems, from wireless carriers offering local and nationwide voice and data plans, and from other VoIP providers such as Skype and Vonage.

Cable television companies have developed technological improvements that have allowed them to extend their competitive operations beyond major markets and have enabled them to provide a broader range of voice and data services over their cable networks. Several national cable companies have aggressively pursued the bundling of voice communications, data and video at a discounted price to attract customers from traditional telephone companies. TDS Telecom estimates that 70% of its ILEC access lines face active voice competition from cable providers at December 31, 2010. Cable companies are increasingly targeting not only residential customers, but commercial customers as well.

Wireless telephone service providers offering feature rich wireless devices and improved network quality increasingly constitute a significant source of competition with ILEC services. As a result, some customers have chosen to completely forego use of traditional wireline telephone service and instead rely solely on wireless service for voice communications services. This trend is more pronounced among residential customers, which comprise approximately 78% of TDS Telecom s ILEC equivalent access lines as of December 31, 2010. It is believed that some small businesses will follow the consumer path by choosing wireless service and disconnecting wireline service. Increasing penetration of wireless broadband services has led to email and texting substitution for long-distance calling which impacts both retail and access revenue.

VoIP technology has also improved and has led cable, Internet and other communications companies to substantially increase their offerings of VoIP service to business and residential customers. VoIP providers route calls partially or wholly over the Internet, without use of ILEC s circuit switches and, in the case of cable operators and CLECs, without use of ILEC networks to carry their communications traffic. VoIP providers frequently use existing Internet networks to deliver flat-rate, all-distance calling plans that may also offer features that cannot readily be provided by traditional ILECs. These plans may also be priced below the prices currently charged for traditional ILEC local and long-distance telephone services.

Incumbent Local Exchange Carrier Regulation

TDS Telecom s ILECs are regulated by federal and state regulatory agencies and TDS Telecom strives to maintain positive relationships with these regulators. Rates, including local rates paid by end user customers and intrastate access charges paid by carriers that exchange traffic with the TDS Telecom ILECs, continue to be subject to state commission approval in many states. Regulators also establish and oversee the implementation of the provisions of federal and state telecommunications laws, including interconnection requirements, universal service obligations, promotion of competition, and the deployment of advanced services. TDS Telecom s ILECs routinely pursue desired changes in rate structures and regulation in an attempt to maintain affordable rates and reasonable earnings. However, due to increased competition, most of TDS Telecom s ILECs have had to move from a pricing structure historically based on costs to one primarily based on market conditions.

State regulators generally must approve rate adjustments, service areas, service standards and accounting methods and these regulators are authorized to limit the return earned on capital, subject to applicable state law. In some states, construction plans, borrowing, depreciation rates, affiliated charge transactions and certain other financial transactions of ILECs are also subject to regulatory oversight and approval. Historically, states designated a single ILEC as the provider of last resort in a local market and then regulated the entry of additional competing providers into the same local market. The Telecommunications Act of 1996 (Telecommunications Act), however, largely preempted state authority over market entry. Nevertheless, while states may not impose requirements that effectively function as barriers to entry, and the FCC is required to preempt state requirements if they impose such barriers to entry, states retain authority to regulate competitive entry in rural telephone company service areas.

As a general matter, TDS Telecom has elected alternative forms of regulation for its ILEC subsidiaries in most states and will continue to pursue alternative regulation, as appropriate, for its remaining ILEC subsidiaries. Alternative regulation typically limits the ability to increase rates for local service, but relieves TDS Telecom from the requirement to meet certain earnings tests and allows more flexibility in the pricing of enhanced and bundled service offerings.

Most of the TDS Telecom ILEC subsidiaries participate in both the National Exchange Carrier Association (NECA) interstate common line and traffic sensitive access charge tariffs and participate in the access revenue pools administered by the FCC-supervised NECA, which collects and distributes the revenues from interstate access charges. The FCC retains regulatory oversight over interstate toll (long-distance) rates and other issues relating to interstate telephone service and continues to regulate the interstate access system. Where applicable, and subject to state regulatory approval, TDS Telecom s ILEC subsidiaries also utilize intrastate access tariffs and participate in intrastate revenue pools.

TDS Telecom s ILEC subsidiaries also draw from the federal and state universal service funds. Universal service support helps keep services in rural and underserved markets comparable in quality and price to services in more urban markets, as Congress mandated in the Telecommunications Act of 1996. Specifically, the High Cost Program of the federal Universal Service Fund ensures that consumers have access to and pay rates for telecommunications services in rural and underserved areas that are reasonably comparable to those provided in urban areas. TDS Telecom s subsidiaries draw from the Universal Service Fund because the cost of providing service in many of its rural markets is high, and all of the costs cannot be recovered solely from customers while still providing service that is reasonably comparable to services in urban markets.

Over the past decade, the FCC and US Congress have periodically contemplated reforming the existing intercarrier compensation system, but have not issued any decision regarding this matter. While this discussion has continued at the federal level, several state regulatory and legislative entities have contemplated ways to lower intrastate access rates. If the FCC or state entities adopt changes in access charge regulations that reduce the revenues from interstate and/or intrastate access charges, TDS Telecom will attempt to replace lost access revenues through charges to customers or through alternative government support payments. If TDS Telecom is unable to replace lost access charge revenues with increased revenues in other areas, this could have a material adverse effect on its financial condition, results of operations and cash flows.

Over the past several years, the FCC has been reviewing the Universal Service Fund (USF) and applicable rules to assess the sustainability of the Fund, as well as the process for determining the appropriate contributors, contribution rate, collection method, supported services, and the eligibility and portability of payments. Congress also from time to time has considered reforming universal service. One recent proposal involves transitioning away from providing support for voice telecommunications networks and instead providing support for the development of broadband networks. TDS Telecom expects that both Congress and the FCC likely will consider this and perhaps similar proposals in 2011. It is not certain which, if any, of these proposals will be adopted. Changes in the USF that reduce the size of the Fund and payments to TDS Telecom could have a material adverse impact on TDS Telecom s financial position, results of operations, and cash flows.

In 2009, Congress directed the FCC to develop a National Broadband Plan (the Plan) to ensure every American has access to broadband capability. In March 2010, the FCC released the plan which describes the FCC s goals in enhancing broadband availability and the methods for achieving those goals over the next decade. The FCC notes that about one-half of the plan will be addressed by the FCC, while the remainder would be addressed by Congress, the Executive Branch and state and local governments working closely with private and non-profit sectors. TDS Telecom cannot predict the outcome of these deliberations or what effect any final rules, regulations or laws may have on its ability to compete in the provision of wireline broadband services to its customer base. Changes in regulation or the amount or distribution of funds to TDS Telecom and other telecommunications service providers could impact competition in certain of TDS Telecom s service areas, and could have a material adverse affect on TDS Telecom s business, financial condition or results of operations. On February 8, 2011, the FCC issued a Notice of Proposed Rulemaking seeking comment on proposals to revamp the USF and provide support for broadband deployment and for reforming the existing intercarrier compensation regime. Reform of the existing intercarrier compensation regime - the means by which carriers pay or are compensated for originating and terminating traffic - may result in reductions of intercarrier compensation paid by carriers over time. While timing is uncertain, the FCC indicated that they expect to issue an order in the docket before the end of 2011.

Congress enacted the American Recovery and Reinvestment Act of 2009, or the Recovery Act, which provides, among other things, for an aggregate appropriation of $7.2 billion to fund grants and loans to provide broadband infrastructure, access and equipment to consumers residing in rural, unserved or underserved areas of the United States. Under the Recovery Act, TDS Telecom was awarded $105.1 million in federal grants and will provide $30.9 million of its own funds to complete 44 projects. The distribution of Recovery Act funds to other telecommunications service providers could impact competition in certain of TDS Telecom s service areas.

The FCC and various provisions of federal law require carriers to comply with numerous regulatory requirements. Compliance with these requirements may be costly and noncompliance can lead to lawsuits and financial penalties. These requirements include letting subscribers change to competitors services without changing their telephone numbers, taking actions to preserve the available pool of telephone numbers, making telecommunications accessible for those with disabilities, monitoring and reporting network outages, and properly handling and protecting customer proprietary network information. Under the Communications Assistance to Law Enforcement Act, all telecommunications carriers, including TDS Telecom, must implement certain equipment changes necessary to assist law enforcement authorities in achieving an enhanced ability to conduct electronic surveillance of those suspected of criminal activity. TDS Telecom believes it is in compliance with these requirements.

In 2009, the FCC initiated a rulemaking proceeding designed to codify its existing Net Neutrality principles and impose new requirements that could have the effect of restricting the ability of wireless internet service providers to manage applications and content that traverse their networks. In December, 2010, after a lengthy proceeding, which considered different approaches, including the reclassification of internet access as common carrier service under Title II of the Communications Act, the FCC adopted a net neutrality rule based on its Title I ancillary authority to enforce different parts of the Communications Act. The rule requires all providers of broadband internet access, including both fixed (that is, telephone and cable) and wireless providers, to publicly disclose accurate information regarding their network management practices, performance and commercial terms sufficient for consumers to make informed choices regarding the use of such services. The rule also prohibits all internet providers from blocking consumers access to lawful websites, subject to reasonable network management, and from blocking applications that compete with the provider s voice or video telephony services, also subject to reasonable network management. The rule subjects the providers of fixed but not wireless broadband internet access to a prohibition on unreasonable discrimination in transmitting internet traffic over their networks, also subject to reasonable network management. The exemption of wireless providers from this part of the rule reflects a recognition of the capacity constraints and other special conditions under which mobile broadband service is offered and the competitive nature of evolving wireless networks. Thus the FCC at this time considered it appropriate to take only the measured steps with respect to mobile broadband service reflected in the rule. The order is generally controversial and has been challenged in the courts. TDS cannot predict the outcome of such cases.

Competitive Local Exchange Carrier Segment

TDS Telecom provides competitive local exchange carrier telecommunications services through its TDS Metrocom subsidiary by leveraging the strengths of its ILECs. TDS Telecom s CLEC operations offer competitively priced voice, broadband and related services primarily to commercial customers and residential customers in selected markets.

TDS Telecom s CLEC operations are primarily facilities-based but its operations depend on using Regional Bell Operating Company (RBOC) local loops to reach most customers. TDS Telecom s CLEC strategy maintains a geographic focus and is designed to leverage TDS Telecom s existing management and infrastructure to complement its ILEC clustering strategy. TDS Telecom has followed a strategy of controlled entry into certain targeted mid-size communities, regionally proximate to existing TDS Telecom facilities and service areas using a clustering approach to building its CLECs which allows it to cost effectively aggregate and transport long-distance traffic, share service and repair resources and realize marketing efficiencies. Utilizing the infrastructure (e.g., billing systems, network control center, operating systems, financial systems, accounting, technology planning, etc.) built for the ILEC business has allowed the CLEC to operate more efficiently. TDS Telecom s strategy is to be the leading alternative provider for commercial customers telecommunications needs in its CLEC markets. To this end, it has deployed industry standard Class 5 time-division multiplexing switches as well as new generation softswitches and Internet Protocol technologies in its targeted CLEC markets. As in its ILEC markets, TDS Telecom positions itself as an integrated wireline telecommunications provider in its chosen CLEC markets by providing local, long-distance, broadband, and Internet Protocol-based services through its own facilities-based networks.

Competitive Local Exchange Carrier Market Strategy

The CLEC strategy is to focus on medium-sized or larger commercial customers. Medium-sized commercial prospects are characterized by above average access line to employee ratios, heavier utilization of broadband services and a focus on using telecommunications for business improvement. The strategy is to provide these business segments with secure and reliable Internet access, secure data connections and advanced voice service with innovative VoIP features. TDS Telecom addresses these business needs for increased communications capabilities at reduced costs by matching new and existing technologies to create greater efficiencies and providing after-the-sale support. This approach is typified by TDS hosted-managedIP telephony service which provides integrated voice and data services to the customer s desktop. This desktop integration provides clear productivity enhancements along with reduced expense to TDS Telecom CLEC business customers.

An emphasis on product development has led to the introduction of several integrated voice and data solutions as well as the creation of small business bundled products targeting business customers that make buying voice and broadband services easier and increase the value of these products. Offering cost effective voice and broadband solutions bundled with and provisioned on a single access line provides for direct cost savings to the customer, removes distance limitations commonly associated with high speed data technology, and gives the customer greater flexibility to grow business telecommunications use.

Additional commercial products, services and applications are under development to sell deeper into new and existing commercial accounts. Expanded offerings for the commercial sector include managedIP telephony service, Internet Protocol enabled telephone systems, and traditional telephone systems. Combining CLEC service offerings with Customer Provided Equipment (CPE) is intended to drive greater customer revenues while promoting a One Vendor telecommunications provider experience for CPE, voice and broadband services. Additional Internet Protocol and managed services product sets under development include firewall services, Internet intrusion protection services, and universal resource locater (URL) filtering. All of these provide commercial customers with additional services, controls and network protection.

TDS Telecom is maintaining a strategy of continuing to serve the current residential customer base with high quality customer service and competitive pricing, but not seeking to attract any new residential customers. Therefore, it is expected that the number of residential customers within TDS Telecom s CLEC segment will continue to decline. There are 42,200 residential consumer lines remaining at December 31, 2010 representing about $28.5 million in retail revenues.

TDS Telecom continues to seek to develop and maintain an efficient CLEC cost structure to ensure that it can match price-based initiatives from competitors. Internet Protocol telephony, and packet switching networks are all being evaluated or deployed to increase high-speed data reach, to lower the cost of providing service, and to ensure continued network access to customers for service provisioning.

Competitive Local Exchange Carrier Technology

TDS Telecom s CLEC strategies recognize the changing telecommunications marketplace and the need to meet customer demands for greater bandwidth while decreasing dependence on RBOC local loops. TDS Telecom intends to meet competition by providing its customers with high-quality telecommunications services and building its network to take full advantage of advanced telecommunications technologies including:

- Providing a hosted managedIP voice service to all of its CLEC markets. This service allows customers to integrate their voicemail and e-mail messaging platforms, self provision advanced calling features, and integrate their telephone sets with their personal computers.

- Providing converged voice and data services that can be dynamically allocated and provisioned using an RBOC local loop and a channel bank at the commercial customer s premise. The advantage of having dynamic allocation is that a single loop can provide greater broadband speeds when the voice lines are not in use.

- Continuing to expand its fiber network into additional commercial customer premises and to upgrade its capacity to existing customers when economically justified.

Competitive Local Exchange Carrier Competition

While TDS Telecom positions itself as a high-quality telecommunications provider, it is experiencing price competition from RBOCs, other competitive local exchange carriers, cable providers, wireless carriers, and VoIP providers as it seeks to gain and retain customers. In addition, the RBOCs are actively seeking regulatory and technological changes that could impede TDS Telecom s access to facilities used to provide CLEC telecommunications services.

TDS Telecom s CLEC operations compete with RBOCs on the basis of price, reliability, state-of-the-art technology, product and service offerings, route diversity, ease of ordering, and customer service, including responsiveness to customer needs. RBOCs have long-standing relationships with their customers and are well established in their respective markets. RBOCs are offering increased pricing flexibility for their services and have implemented long-term customer contracts with high cancellation penalties for retention purposes. RBOCs continue to pursue aggressive Winback programs that have been somewhat effective in regaining lines lost to CLECs. TDS Telecom believes that, in general, its CLEC operations provide more attention and responsiveness to customers than RBOCs provide to similar sized customers in TDS Telecom s CLEC markets.

Competitive Local Exchange Carrier Regulation

TDS Telecom s CLEC operations, like its ILEC operations, are regulated by state and federal regulatory agencies, including the FCC. (See Incumbent Local Exchange Carrier Regulation above.) However, CLECs are subject to significantly less regulation than ILECs.

The FCC exercises regulatory jurisdiction over all facilities of, and services offered by, communications common carriers to the extent those facilities are used to provide, originate or terminate interstate or international telecommunications. The FCC has established different levels of regulation for dominant carriers and non-dominant carriers. For domestic interstate telecommunications services, only incumbent local exchange carriers are classified as dominant carriers. All other carriers are classified as non-dominant. The FCC regulates many of the rates, charges and services of dominant carriers to a greater degree than those of non-dominant carriers. As non-dominant carriers, CLECs also are subject to fewer regulatory requirements in connection with their installation and operation of facilities for domestic interstate telecommunications. CLECs are not required to maintain tariffs for domestic interstate long-distance services. However, they are required to submit certain periodic reports to the FCC and to pay regulatory fees.

CLECs are also subject to state regulation. Certain states require CLECs to obtain operating authority prior to initiating intrastate services. Certain states also require the filing of tariffs or price lists and/or customer-specific contracts. TDS Telecom s CLEC operations are not currently subject to rate-of-return or price regulation. However, CLECs are subject to state-specific quality of service, universal service, periodic reporting and other regulatory requirements, although the extent of these requirements generally is less than those applicable to ILECs. In addition, local governments may require CLECs to obtain licenses or franchises which regulate the use of public rights-of-way necessary to install and operate their networks.

The Telecommunications Act requires ILECs to provide requesting carriers such as TDS Telecom s CLEC with nondiscriminatory access to unbundled network elements (UNEs) at cost-based rates. UNEs are components of ILEC networks that CLECs lease, and in some cases, combine with their own network facilities to provide services to end user customers. Subsequent rulings have modified the circumstances under which ILECs must make UNEs available to CLECs at cost-based rates, e.g., the extent to which ILECs must unbundle and make available fiber optic lines and broadband hybrid loops. This has had the practical effect of increasing CLEC costs to deliver certain high-capacity services to customers because CLECs no longer can rely on ILECs to lease them fiber lines and broadband hybrid loops at cost-based rates. CLEC options can be further limited by the fact that in many jurisdictions ILECs are retiring their copper lines, thus removing those lines as an option for CLEC use as UNEs in connection with the provision of DSL services. As a result of these many factors, TDS Telecom s CLEC today either must construct its own fiber optic lines and hybrid loops, pay a higher rate to lease these facilities from ILECs, or seek other alternative providers where available.

TDS Other Items

Employees

TDS had approximately 12,400 employees as of December 31, 2010, less than 1% of whom were represented by a labor organization. TDS considers its relationship with its employees to be good.

Item 1A. Risk Factors

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

SAFE HARBOR CAUTIONARY STATEMENT

This Annual Report on Form 10-K, including exhibits, 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 sim 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 under Risk Factors in this 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 following risk factors and other information contained in, or incorporated by reference into, this Form 10-K to understand the material risks relating to TDS business.

RISK FACTORS

1) Intense competition in the markets in which TDS operates could adversely affect TDS revenues or increase its costs to compete.

Competition in the telecommunications industry is currently intense and could intensify further in the future due to the general effects of a weak economy, as well as due to wireless industry factors such as increasing market penetration and decreasing customer churn rates. TDS ability to compete effectively will depend, in part, on its ability to anticipate and respond to various competitive factors affecting the telecommunications industry. TDS anticipates that competition may cause the prices for products and services to continue to decline, and the costs to compete to increase, in the future. Most of TDS competitors are national or global telecommunications companies that are larger than TDS, possess greater resources, possess more extensive coverage areas and more spectrum within their coverage areas, and market other services with their communications services that TDS does not offer. Larger competitors could potentially engage in predatory practices that could have an adverse effect on TDS. In addition, TDS may face competition from technologies that may be introduced in the future or from new entrants into the industry. New technologies, services and products that are more commercially effective than the technologies, services and products offered by TDS may be developed. Further, new technologies may be proprietary such that TDS is not able to adopt such technologies. There can be no assurance that TDS will be able to compete successfully in this environment.

Sources of competition to TDS wireless business typically include three to five competing wireless telecommunications service providers in each market, wireline telecommunications service providers, cable television companies, resellers (including mobile virtual network operators), and providers of other alternate telecommunications services. Many of TDS wireless competitors and other competitors have substantially greater financial, technical, marketing, sales, purchasing and distribution resources than TDS.

TDS competitors offer a wide array of wireless service offerings and wireless devices. There is increasing complexity associated with these wireless product and service offerings and the related pricing. Further, new wireless services and products and pricing structures are frequently introduced. Multiple events related to new service offerings, products and pricing offered by TDS competitors occurring simultaneously or in close proximity, may impact TDS ability to respond to such events and compete effectively.

Sources of competition to TDS wireline ILEC business include, but are not limited to, resellers of local exchange services, interexchange carriers, regional bell operating companies (RBOC), satellite transmission service providers, wireless communications providers, cable television companies, competitive access service providers, competitive local exchange carriers, Voice over Internet Protocol (VoIP) providers and providers using other emerging technologies. In the future, TDS expects the number of its wireline physical access lines served to continue to be adversely affected by wireless and broadband substitution and by cable company competition.

Sources of competition to TDS wireline CLEC business include the sources identified in the prior paragraph as well as the ILEC in each market, which enjoys competitive advantages, including its wireline connection to virtually all of the customers and potential customers of TDS CLEC, its established brand name and its substantial financial resources. TDS CLEC is typically required to discount services to win potential customers. These factors result in lower operating margins for TDS CLEC, and make it vulnerable to any discount pricing policies that the ILEC may adopt to exploit its lower-cost structure and greater financial resources.

Some of the specific risks presented by certain wireline competitors include:

- Cable television companies continued deployment of technologies such as DOCSIS 3.0 that substantially increase data transfer speeds
- Wireless the trend of customers substituting their wireline connection for a wireless device
- RBOC continue to be formidable competitors given their full suite of services, experience and strong financial resources
- VoIP providers are able to offer voice service at a very low price point and are also able in many cases to avoid paying access charges for their VoIP traffic

If TDS does not adapt to effectively compete in such a highly competitive environment, such competitive factors could result in product, service, pricing or cost disadvantages and could have an adverse effect on TDS business, financial condition or results of operations.

2) A failure by TDS to successfully execute its business strategy or allocate resources or capital could have an adverse effect on TDS business, financial condition or results of operations.

U.S. Cellular is a regional wireless carrier that operates on a customer satisfaction strategy, seeking to meet customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network. U.S. Cellular seeks to operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular relies on roaming agreements with other carriers to provide roaming capability to its customers in areas of the U.S. outside its service areas and to improve coverage within selected areas of U.S. Cellular s network footprint. U.S. Cellular pursues a product and technology strategy which requires it to follow and recognize product and technology advances and quickly adopt and execute rollouts of such advances. This smart follower strategy requires U.S. Cellular to make timely and effective strategic decisions related to technological advances and related products and services, and which of these technological advances to adopt and roll out to its customers.

In addition, in pursuit of its business strategy U.S. Cellular is engaged in 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; an Electronic Data Warehouse/Customer Relationship Management System to collect and analyze information more efficiently to build and improve customer relationships; and a new Internet/Web platform to enable customers to complete a wide range of transactions and, eventually, to manage their accounts online. These multi-year initiatives involve a substantial financial commitment, including the entry into a multi-year commitment with a vendor during 2010 for licensing and services related to the development and implementation of the new B/OSS.

Further, U.S. Cellular s strategic decisions related to the adoption of new technologies are ultimately impacted by such factors as consumer preferences for technologies and the related services and products, and original equipment manufacturer (OEM) support of such technologies, among other factors. Also, U.S. Cellular s smart follower strategy may cause consumers that are eager to adopt new technologies more quickly to select U.S. Cellular s competitors as their service provider. These customers who are early adopters of new technologies are often customers who generate higher average revenue per unit (ARPU), and to the extent that U.S. Cellular does not attract these types of customers, U.S. Cellular could be at a competitive disadvantage and have a customer base that generates lower overall ARPU relative to its competition.

TDS Telecom s strategy is to be the preferred provider of telecommunications services including voice, broadband, and video services in its chosen markets. TDS Telecom has initiated an aggressive program of service bundling and deep discounting and made the decision to voluntarily exit certain revenue pools administered by the FCC-supervised National Exchange Carrier Association in order to achieve additional pricing flexibility to meet competitive pressures and increase customer loyalty. TDS Telecom is continuing to focus on cost-reduction initiatives through product cost improvement and process efficiencies and also plans to continue to focus on customer retention programs, including triple-play bundles involving voice, DSL and satellite TV. Service bundling is dependent on various factors, including the ability of TDS Telecom to continue to be able to partner with a provider of satellite television. Further, as technology advances, satellite TV service may become inferior to cable TV service. In addition, as TDS converges its services, it may be difficult to converge satellite TV service with TDS other services.

The successful execution of strategies, the optimal allocation within TDS portfolio of assets and optimal capital allocation decisions depend on various internal and external factors, many of which are not in TDS control. TDS ability to implement and execute its business strategies and optimally allocate its assets and capital and, as a result, achieve desired financial results, could be affected by such factors. Such factors include pricing practices by competitors, relative scale, purchasing power, roaming and other strategic agreements, wireless device availability, timing of introduction of wireless devices and other factors. In addition, there is no assurance that U.S. Cellular s multi-year initiatives or TDS Telecom s cost-reduction or customer-retention programs will be successful. Even if TDS executes its business strategies as intended, such strategies may not be successful in the long term to profitably sustain growth in revenues or otherwise. A failure by TDS to execute its business strategy successfully or to allocate resources or capital optimally could have an adverse effect on TDS wireless and wireline businesses, financial condition or results of operations.

3) 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 operations.

Customer acceptance of the services that TDS offers is and will continue to be affected by technology and range of device and service-based differences from competition and by the operational performance, quality, reliability, and coverage of TDS networks. TDS may have difficulty attracting and retaining customers if it is unable to meet customer expectations for a range of services, such as wireless device selection by U.S. Cellular and easy access to a broad variety of applications, or if it is otherwise unable to resolve quality issues relating to its networks, billing systems, or customer care or if any of those issues limit TDS ability to expand its network capacity or customer base, or otherwise place TDS at a competitive disadvantage to other service providers in its markets. The levels of customer demand for any TDS next-generation services and products are uncertain. Customer demand could be impacted by differences in the types of services offered, service content, technology, footprint and service areas, network quality, customer perceptions, customer care levels and rate plans.

4) 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.

The telecommunications industry is experiencing significant changes in technologies and services expected by customers. Future technological changes or advancements may enable other technologies to equal or exceed TDS current levels of service and render its system infrastructure obsolete. New technologies or services often render existing technology products, services or infrastructure obsolete, too costly or otherwise unmarketable. TDS system infrastructure may not be able to accommodate new product features and functionality, new reporting requirements, new capacity requirements or deployment of complex next generation services. If TDS is unable to meet future advances in or changes in competing technologies on a timely basis, or at an acceptable cost, it may not be able to compete effectively with other carriers, which could result in lost customers and revenues. This could have an adverse effect on TDS business, financial condition or results of operations.

5) 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 customers can access another carrier s digital system automatically only if the other carrier allows TDS customers to roam on its network. TDS relies on roaming agreements with other carriers to provide roaming capability to its customers in areas of the U.S., Mexico and Canada outside of its service areas and to improve coverage within selected areas of TDS network footprint. Such agreements cover traditional voice services as well as data services, which are an area of strong growth for TDS and other carriers. Although TDS currently has long-term roaming agreements with certain other carriers, these agreements generally are subject to renewal and termination if certain events occur, including, without limitation, if network standards are not maintained. FCC rules require wireless carriers to offer some roaming arrangements to other carriers on reasonable terms and conditions. However, carriers frequently disagree on what constitutes reasonable terms and conditions. Pursuant to certain FCC proceedings, commercial mobile radio service providers are required to provide automatic roaming for voice and SMS text messaging services to other providers on just, reasonable and non-discriminatory terms; however, the FCC has not defined what this means. In addition, the FCC has not issued orders addressing roaming for data services, which are the subject of further pending proceedings. At this time, there is no assurance that TDS will be able to enter into or renegotiate existing agreements to provide data roaming services using LTE or other technologies or that it will be able to do so on reasonable or cost-effective terms.

Some competitors may be able to obtain lower roaming rates than TDS is able to obtain because they have larger call volumes or because of their affiliations with, or ownership of, wireless carriers, or may be able to reduce roaming charges by providing service principally over their own networks. In addition, the quality of service that a wireless carrier delivers during a roaming call may be inferior to the quality of service TDS provides, the price of a roaming call may not be competitive with prices of other wireless carriers for such call, and TDS customers may not be able to use some of the advanced features, such as voicemail notification or data applications, that TDS customers enjoy when making calls within TDS network. TDS rate of adoption of new technologies, such as those enabling high-speed data services, could affect its ability to enter into or maintain roaming agreements with other carriers. In addition, TDS wireless technology may not be compatible with technologies used by other carriers, which may limit the ability of TDS to enter into voice or data roaming agreements with such other carriers. TDS roaming partners could switch their business to new operators or, over time, to their own networks. Changes in roaming usage patterns, rates for roaming minutes or data use or relationships with carriers whose customers generate roaming minutes or data use on TDS network could have an adverse effect on TDS revenues and revenue growth.

To the extent that TDS key roaming partners expand their networks in TDS service areas, the roaming arrangements between TDS and these key roaming partners could become less strategic to such key roaming partners. That is, these key roaming partners will have fewer or less extensive geographic areas where roaming services are required by their customers and, as a result, the roaming arrangements could become less critical to serving their customer base. This presents a risk to TDS in that to the extent TDS is not able to enter into economically viable roaming arrangements with key roaming partners, this could impact TDS ability to service its customer base in geographic areas where TDS does not have its own network.

If TDS is unable to obtain or maintain roaming agreements with other wireless carriers that contain pricing and other terms that are competitive and acceptable to TDS, and that satisfy TDS quality and interoperability requirements, its business, financial condition or results of operations could be adversely affected.

6) TDS currently receives a significant amount of roaming revenues from its wireless business. As a result of acquisitions by other companies in the wireless industry, TDS roaming revenues have declined significantly from amounts earned in certain prior years. Further industry consolidation and continued build outs by other wireless carriers could cause roaming revenues to decline even more, which would have an adverse effect on TDS business, financial condition and results of operations.

TDS revenues include roaming revenues related to the use of TDS network by other carriers customers who travel within TDS coverage areas. Changes in the network footprints of carriers due to mergers, acquisitions or network expansions also could have an adverse effect on TDS roaming revenues. For example, consolidation among other carriers which have network footprints that currently overlap TDS network could further decrease the amount of roaming revenues for TDS. Accordingly, further industry consolidation could cause roaming revenues to decline even more, which would have an adverse effect on TDS business, financial condition and results of operations.

7) 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 and operations.

TDS wireless business depends on the ability to use portions of the radio spectrum licensed by the FCC. TDS could fail to obtain access to sufficient spectrum capacity in new or existing critical markets, whether through FCC auctions or other transactions, in order to meet the anticipated spectrum requirements associated with expected growth in customers and increased demand for existing services, and to enable deployment of next-generation services. In addition, TDS could fail to accurately forecast its future spectrum requirements considering changes in customer usage patterns, technology requirements and the expanded demands of new services. Such a failure could have a material adverse impact on the quality of TDS services or TDS ability to roll out such future services in some markets, or could require that TDS curtail existing services in order to make spectrum available for next-generation services. Spectrum constrained providers could be effectively capped in increasing market share. As they gain customers, they use up their network capacity. Since they lack spectrum, they can respond to demand only by adding cell sites, which is capital intensive, limited by zoning considerations, and ultimately may not be cost effective. If they become less cost-competitive, they may become unprofitable or be required to raise prices and lose customers, which would be an unsustainable position. TDS may acquire access to spectrum through a number of alternatives, including participation in spectrum auctions, partnering on a non-controlling basis with other auction applicants (Other Applicants) and other acquisitions and exchanges. As required by law, the FCC has conducted auctions for licenses to use some parts of the radio spectrum. The decision to conduct auctions, and the determination of what spectrum frequencies will be made available for auction are made by the FCC pursuant to laws that they administer. The FCC may not be able to allocate spectrum sufficient to meet the demands of all those wishing to obtain licenses for new market entry or to expand their spectrum holdings to meet the expanding demand for data services or to address other spectrum constraints. TDS or Other Applicants may not be successful in FCC auctions in obtaining the spectrum that either believes is necessary to implement its business and technology strategies. In addition, newly auctioned spectrum may not be compatible with existing spectrum, and vendors may not create suitable products to use such spectrum. Further, access to use spectrum won in FCC auctions may not be available on a timely basis. Such access is dependent upon the FCC actually granting licenses won in the various auctions, which can be delayed for various reasons, including the possible need for the FCC to transition current users of spectrum to other portions of the radio spectrum. TDS also may seek to acquire radio spectrum through purchases and exchanges with other spectrum licensees. However, TDS may not be able to acquire sufficient spectrum through these types of transactions, and TDS may not be able to complete any of these transactions on favorable terms.

8) To the extent conducted by the FCC, TDS is likely to participate in FCC auctions of additional spectrum in the future as an applicant or as a non-controlling 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.

From time to time, the FCC conducts auctions through which additional spectrum is made available for the provision of wireless services. TDS has participated in such auctions in the past and is likely to participate in other auctions conducted by the FCC in the future as an applicant or as a non-controlling partner in another auction applicant. FCC anti-collusion rules place certain restrictions on business communications and disclosures by participants in an FCC auction. These anti-collusion rules may restrict the normal conduct of TDS business and/or disclosures by TDS relating to an FCC auction, which could last three to six months or more. The restrictions could have an adverse effect on TDS business, financial condition or results of operations.

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

TDS operations are subject to varying degrees of regulation by the FCC, state public utility commissions and other federal, state and local regulatory agencies and legislative bodies. Adverse decisions or increased regulation by these regulatory bodies could negatively impact TDS operations by, among other things, increasing TDS costs of doing business, permitting greater competition or limiting TDS ability to engage in certain sales or marketing activities.

TDS wireless business requires licenses granted by the FCC to provide wireless telecommunications services. Typically, such licenses are issued for an initial ten-year term and may be renewed for additional ten-year terms, subject to FCC approval of the renewal applications. Failure to comply with FCC requirements in a given service area could result in the revocation of TDS license for that area or in the imposition of fines. Court decisions and rulemakings could have a substantial impact on TDS wireless operations, including rulemakings on intercarrier access compensation and universal service. Litigation and different objectives among federal and state regulators could create uncertainty and delay TDS ability to respond to new regulations. TDS is unable to predict the future actions of the various regulatory bodies that govern TDS, but such actions could have material adverse effects on TDS wireless business.

TDS wireline operations are subject to varying degrees of regulation by the FCC, state public utility commissions and other federal, state and local regulatory agencies and legislative bodies. Adverse decisions or increased regulation by these regulatory bodies could negatively impact TDS operations by, among other things, increasing TDS costs of doing business, permitting greater competition or limiting TDS ability to engage in certain sales or marketing activities. TDS is unable to predict the future actions of the various regulatory bodies that govern TDS, but such actions could have material adverse effects on TDS wireline business.

TDS ILECs have been granted permission to operate by each of the states in which they operate. TDS is subject to regulation from the regulatory commissions in each of these states as well as from the FCC. State regulatory commissions have primary jurisdiction over local and intrastate rates that TDS charges customers, including, without limitation, other telecommunications companies, and service quality standards. The FCC has primary jurisdiction over the interstate access rates that TDS charges other telecommunications companies that use TDS network and other issues related to interstate service. TDS receives a substantial amount of its ILEC revenues from interexchange carriers for providing access to its network and from compensation from the Universal Service Fund and other support funds. The FCC is re-examining all currently regulated forms of access charges and the prospect for continued access charges is uncertain. Furthermore, the FCC is reviewing the Universal Service Fund and applicable rules to assess the sustainability of the fund and is examining the process for determining the appropriate contributors, contribution rate, collection method, supported services, and the eligibility for and portability of payments. Changes in access charges and the Universal Service Fund that reduce the size of the fund and/or payments to TDS could have a material adverse impact on these sources of revenues. Future revenues, costs, and capital investment in TDS wireline business could be adversely affected by material changes to these regulations including but not limited to changes in intercarrier compensation, state and federal universal service support, loop (UNE-L) pricing and requirements, and VoIP regulation.

Although TDS CLECs are not subject to regulatory review in the same way as the ILECs, the viability of their business model depends on FCC and state regulations. Court decisions and regulatory developments relating to UNE-L and access and transport options could negatively affect the CLEC s ability to obtain access to certain local networks or to provide broadband services to end users and/or could increase the CLEC s cost of providing some services. As a result of certain court decisions and regulatory developments, TDS has phased-out most of its CLEC operations that relied on an unbundled network element-platform provided by incumbent carriers. Moreover, the further loss of some access and transport options as a result of future developments would be unfavorable for TDS CLEC operations and could negatively affect their ability to provide broadband services to end users.

Congress enacted the American Recovery and Reinvestment Act of 2009, or the Recovery Act, which provides, among other things, for an aggregate appropriation of $7.2 billion to fund grants and loans to provide broadband infrastructure, access and equipment to consumers residing in rural, unserved or underserved areas of the United States. Under the Recovery Act, TDS Telecom will receive federal grants and will provide its own funds to complete designated projects. U.S. Cellular did not receive any grants of Recovery Act funds. The distribution of Recovery Act funds to other telecommunications service providers could impact competition in certain of U.S. Cellular s and TDS Telecom s service areas.

In March 2010, the FCC released its National Broadband Plan (the Plan) which describes the FCC s goals in enhancing broadband availability and the methods for achieving those goals over the next decade. The FCC notes that about one-half of the Plan will be addressed by the FCC, while the remainder would be addressed by Congress, the Executive Branch and state and local governments working closely with private and non-profit sectors. TDS cannot predict the outcome of these deliberations or what effects any final rules, regulations or laws may have on its ability to compete in the provision of wireline and wireless broadband services to its customer base. Changes in regulation or the amount or distribution of USF funds to U.S. Cellular, TDS Telecom and other telecommunications service providers could impact competition in certain of U.S. Cellular s and TDS Telecom s service areas, and could have a material adverse effect on TDS business, financial condition or results of operations.

In 2009, the FCC initiated a rulemaking proceeding designed to codify its existing Net Neutrality principles and impose new requirements that could have the effect of restricting the ability of wireless internet service providers to manage applications and content that traverse their networks. In December, 2010, after a lengthy proceeding, which considered different approaches, including the reclassification of internet

access as common carrier service under Title II of the Communications Act, the FCC adopted a net neutrality rule based on its Title I ancillary authority to enforce different parts of the Communications Act. The rule requires all providers of broadband internet access, including both fixed (that is, telephone and cable) and wireless providers, to publicly disclose accurate information regarding their network management practices, performance and commercial terms sufficient for consumers to make informed choices regarding the use of such services. The rule also prohibits all internet providers from blocking consumers access to lawful websites, subject to reasonable network management, and from blocking applications that compete with the provider s voice or video telephony services, also subject to reasonable network management. The rule subjects the providers of fixed but not wireless broadband internet access to a prohibition on unreasonable discrimination in transmitting internet traffic over their networks, also subject to reasonable network management. The exemption of wireless providers from this part of the rule reflects a recognition of the capacity constraints and other special conditions under which mobile broadband service is offered and the competitive nature of evolving wireless networks. Thus the FCC at this time considered it appropriate to take only the measured steps with respect to mobile broadband service reflected in the rule. The order is generally controversial and has been challenged in the courts. TDS cannot predict the outcome of such cases.

In addition, new or amended regulatory requirements could increase TDS costs and divert resources from other initiatives.

TDS attempts to timely and fully comply with all regulatory requirements. However, in certain circumstances, TDS may not be able to timely or fully comply with all regulatory requirements due to various factors, including changes to regulatory requirements, limitations in or availability of technology, insufficient time provided for compliance, problems encountered in attempting to comply or other factors. Any failure by TDS to timely or fully comply with any regulatory requirements could adversely affect TDS financial condition, results of operations or ability to do business.

10) Changes in USF funding and/or intercarrier compensation could have a material adverse impact on TDS financial position or results of operations.

Over the past several years, the FCC has been reviewing the Universal Service Fund (USF) and applicable rules to assess the sustainability of the USF, as well as the process for determining the appropriate contributors, contribution rate, collection method, supported services, and the eligibility and portability of payments. Congress also from time to time has considered reforming universal service support. The National Broadband Plan proposes that support for voice telecommunications networks be transitioned to support for the development of broadband networks and on February 8, 2011, the FCC issued a Notice of Proposed Rulemaking seeking comment on proposals to revamp the USF and provide support for broadband deployment and for reforming the existing intercarrier compensation regime. Reform of the existing intercarrier compensation regime - the means by which carriers pay or are compensated for originating and terminating traffic - may result in reductions of intercarrier compensation paid by carriers over time. While the timing is uncertain, the FCC has indicated that it expects to issue an order in this docket before the end of 2011.

In May 2008, the FCC adopted a state-by-state temporary cap to funding for competitive ETCs based on the funding level available as of March 31, 2008. The imposition of the cap has had the effect of reducing the amount of support that U.S. Cellular would otherwise have been eligible to receive. The funding level under the cap is undergoing revision because of the time lag in the reporting of some cost inputs by local exchange carriers which is used in part to determine the amount of per line support that wireless ETCs are entitled to receive. This revision may further reduce funding under the cap and may result in the need to refund some payments that U.S. Cellular has received in excess of the revised cap amount. In October 2010, the FCC proposed creating a $100-300 million Mobility Fund to subsidize on a one time basis new wireless broadband development in unserved areas with subsidies awarded to low bidders under a reverse auction mechanism. On February 8, 2011, the FCC issued a NPRM to consider reform of the USF program and intercarrier compensation regime in response to the issuance of the National Broadband Plan in March 2010. Creation of the Mobility Fund and adoption of a USF reform proposal by the FCC to transition support from voice networks to broadband networks could have a significant and adverse impact on the amount of support, if any, wireless ETCs continue to receive. Reform of the existing intercarrier compensation regime - the means by which carriers pay or are compensated for originating and terminating traffic - may result in reductions of intercarrier compensation paid by carriers over time. The ultimate outcome and timing of these proceedings is unknown at this time.

Over the past decade, the FCC and US Congress have periodically contemplated reforming the existing intercarrier compensation system, but have not issued any decision regarding this matter. While this discussion has continued at the federal level, several state regulatory and legislative entities have contemplated ways to lower intrastate access rates. If the FCC or state entities adopt changes in access charge regulations that reduce the revenues from interstate and/or potentially intrastate access charges, these changes could have a material adverse impact on TDS. TDS will attempt to replace lost access revenues through charges to customers or through alternative government support payments.

If and when intercarrier compensation reform is implemented, certain compensatory provisions may allow, or require, state review of rates of return in order to qualify for such compensation. States may also independently review such rates of return prior to intercarrier compensation

reform. Certain states could deem TDS rates of return too high and adjust intercarrier compensation accordingly.

TDS is not able to predict what, if any, changes or actions ultimately will be adopted or taken by the FCC or state regulatory authorities or any other action that may be taken as a result of the foregoing proposals. Such changes could have a material adverse impact on TDS financial condition and results of operations.

11) 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.

Due to competition for qualified management, technical, sales and other personnel and TDS relative size in comparison to much larger competitors, there can be no assurance that TDS will be able to continue to attract and/or retain qualified personnel necessary for the development of its business. The loss of the services of existing key personnel as well as the failure to recruit additional qualified personnel in a timely manner could have an adverse effect on TDS business, financial condition or results of operations.

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

TDS assets are concentrated in the U.S. telecommunications industry and, in particular, in the Midwestern portion of the United States. The U.S. telecommunications industry is facing significant change and an uncertain operating environment. TDS has not substantially diversified its revenue streams outside of its two principal business units, wireless and wireline telecommunications. TDS focus on the U.S. telecommunications industry, with concentrations of assets and operations in the Midwest, together with its positioning relative to larger competitors with greater resources within the industry, may represent increased risk for investors due to the lack of diversification. This could have an adverse effect on TDS ability to profitably sustain long-term revenue growth and could have an adverse effect on its business, financial condition or results of operations.

13) The completion of acquisitions by other companies has led to increased consolidation in the wireless telecommunications industry. TDS lower scale relative to larger wireless carriers has in the past and could in the future prevent or delay its access to new products including wireless devices, new technology and/or new content and applications which could adversely affect TDS ability to attract and retain customers and, as a result, could adversely affect its business, financial condition or results of operations.

There has been a trend in the telecommunications and related industries in recent years towards consolidation of service providers through acquisitions, reorganizations and joint ventures. TDS expects this trend towards consolidation to continue, leading to larger competitors over time. TDS has lower scale efficiencies compared to larger competitors. TDS may be unable to compete successfully with larger companies that have substantially greater financial, technical, marketing, sales, purchasing and distribution resources or that offer more services than TDS, which could adversely affect TDS revenues and costs of doing business. Specifically, TDS smaller scale relative to most of its competitors could have the following impacts:

- Increased operating costs due to lack of leverage with vendors
- Limited opportunities for strategic partnerships as potential partners are focused on wireless and wireline carriers with greater scale
- More limited access to content
- Limited access to wireless devices as larger competitors enter into exclusive wireless device arrangements
- Limited ability to influence industry standards
- Reduced ability to invest in research and development of new products and services
- Vendors may deem TDS non-strategic and not develop or sell products and services to TDS, particularly where technical requirements or specifications differ from those of larger companies
- Limited access to intellectual property

TDS businesses increasingly depend on access to content for data, music or video services and access to new wireless devices and other devices being developed by vendors. TDS ability to obtain such access depends in part on other parties. For example, filings in proceedings before the FCC have alleged that larger companies have entered into exclusive arrangements with wireless device manufacturers which have the potential

to restrict the market availability of particular wireless devices. If TDS is unable to obtain timely access to content for data, music or video services or timely access to new wireless devices being developed by vendors, its business, financial condition or results of operations could be adversely affected.

14) TDS inability to manage its supply chain or inventory successfully could have an adverse effect on its business, financial condition or results of operations.

Operation of TDS supply chain and management of its inventory require accurate forecasting of customer growth and demand, which has become increasingly challenging. If overall demand for wireless devices or the mix of demand for wireless devices is significantly different than TDS expectations, TDS could face inadequate or excess supplies of particular models of wireless devices. This could result in lost sales opportunities or an excess supply of inventory. Either of these situations could adversely affect TDS revenues, costs of doing business, results of operations or financial condition.

15) Changes in general economic and business conditions, both nationally and in the markets in which TDS operates, could have an adverse effect on TDS business, financial condition or results of operations.

TDS operating results may be subject to factors which are outside of TDS control, including changes in general economic and business conditions. Such factors could have a material adverse effect on TDS business, financial condition or results of operations.

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

Changes in any of several factors could have an adverse effect on TDS business, financial condition or results of operations. These factors include, but are not limited to:

- Demand for or usage of services;
- Customer preferences, including Internet speed and type of wireless devices;
- Customer perceptions of network quality and performance;
- The pricing of services;
- The overall size and growth of TDS customer base;
- Average revenue per unit;
- Penetration rates;
- Churn rates;
- Selling expenses;
- Net customer acquisition and retention costs;
- Customers ability to pay for services and the potential impact on bad debts expense;
- Roaming rates;
- Voice minutes and data use;
- The mix and costs of products and services offered by TDS and purchased by customers; and
- The costs of providing products and services.

17) Advances or changes in telecommunications technology, such as Voice over Internet Protocol (VoIP), High-Speed Packet Access (HSPA), WiMAX or Long-Term Evolution (LTE), 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.

The telecommunications industry is experiencing significant technological change, as evidenced by evolving industry standards, ongoing improvements in the capacity and quality of digital technology, shorter development cycles for new services, and products, and enhancements and changes in end-user requirements and preferences. Widespread deployment of technologies such as Wi-Fi, which does not rely on

exclusively-licensed spectrum, advances in HSPA, and the deployment of fourth-generation technologies (4G) such as LTE or WiMax, could cause the technology used on TDS wireless networks to become less competitive or obsolete. In addition, wider deployment and use of Voice over Internet Protocol (VoIP) could cause a decrease in demand for TDS traditional circuit-switched telephone services. Specifically, VoIP providers have lower barriers to entry into the telecommunications business, are able to avoid access charges in many cases, and may use a strategy of offering voice service for free or at a marginally profitable rate in order to sell other services and content to customers. Also, high speed wireless networks (wireless broadband) represent a product offering and opportunity for TDS wireless business, but also represent a risk for TDS wireline business as customers may elect to substitute their wireline broadband connection for wireless broadband. Further, fixed-mobile convergence services that combine wireline broadband services with mobile services represent a competitive threat. TDS may not be able to respond to such changes and implement new technology on a timely or cost-effective basis, which could reduce its revenues or increase its costs of doing business. If TDS cannot keep pace with these technological changes or other changes in the telecommunications industry over time, its financial condition, results of operations or ability to do business could be adversely affected.

18) Complexities associated with deploying new technologies present substantial risk.

TDS has selected LTE technology as its approach to address demand for services enabled by fourth generation wireless technology. The deployment of LTE technology is impacted by a number of technical challenges.

Manufacturers of wireless devices (Original Equipment Manufacturers or OEMs) must design and manufacture equipment that operates on the frequency bands available to TDS. This may involve software and hardware support for such bands in wireless device chip sets as well as band-specific designs for components such as filters. OEMs, chipset manufacturers, and component manufacturers will likely prioritize the support of frequency bands that are specified by the largest wireless carriers. Given TDS smaller scale relative to its competitors, it is likely that certain bands of spectrum licensed to TDS and its affiliates will represent a lower priority for chipset and wireless device manufacturers. As a result, the timing and the availability of wireless devices to support TDS LTE roll out is uncertain.

Additionally, the efficiency of LTE networks and the peak speeds they can provide are optimized when the technology is deployed in larger channel bandwidths that, in early releases of LTE, require larger amounts of contiguous spectrum. To the extent that TDS competitors have access to larger contiguous spectrum positions, they may be able to offer faster speeds or provision their networks more efficiently. The LTE standards body, 3GPP, is currently developing standards for the aggregation of non-contiguous spectrum so that network operators can assemble larger bandwidths for a better deployment of LTE. Because different operators have different spectrum band portfolios, such operators desire different aggregation configurations. The standard will likely not support all of these combinations in the first release of the aggregation feature. TDS preferred band aggregation plan is one that is being considered by 3GPP. If TDS plan is not among those chosen in the initial release, or if manufacturers do not choose to support the combinations in their equipment, TDS may not realize the same LTE data transfer speeds as competitors whose band combinations are chosen.

Lack of wireless devices available to TDS to support its LTE roll out, comparatively smaller spectrum positions for initial LTE deployments, and eventually carrier aggregation standards that result in TDS delivering slower LTE data transfer speeds relative to its competitors, could have a material adverse impact on TDS business, financial condition and results of operations.

TDS is deploying technologically advanced wireline services including advanced DSL and fiber optic technologies. A significant amount of the product development and integration risks are borne by TDS. Further, the simultaneous rollout of these advanced services and technologies increases the execution risk. If TDS fails to effectively deploy new technologies and products on a timely basis, this could have a material adverse impact on TDS business, financial condition and results of operations.

19) TDS could incur higher than anticipated intercarrier compensation costs.

When customers use TDS service to call customers of other carriers, in certain circumstances TDS is required to pay the carrier that serves the called party, and any intermediary or transit carrier, for the use of their networks. For transport of calls between its cell sites and mobile telephone switching offices, TDS must often depend on facilities supplied by local telephone companies. The rates for such services are unregulated and sometimes excessive. If such backhaul rates remain as they are, they could have an adverse effect on TDS business as demand for such services increases in a broadband environment. An ongoing FCC rulemaking proceeding is examining whether a unified intercarrier compensation regime should be established for all traffic exchanged between all carriers. New intercarrier compensation rules, if adopted, may result in increases in the charges TDS is required to pay other carriers for terminating calls on their networks, increase the costs of or difficulty in negotiating new agreements with carriers, and decrease the amount of revenue it receives for originating or terminating calls from other carriers on TDS network. Any such changes may have a materially adverse effect on TDS business, financial condition and operating results.

20) 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.

Telecommunications providers pay a variety of surcharges and fees on their gross revenues from interstate and intrastate services, including USF fees and common carrier regulatory fees. The division of services between interstate services and intrastate services, including the divisions associated with the federal USF fees, is a matter of interpretation and may in the future be contested by the FCC or state authorities. The FCC also may change in the future the basis on which federal USF fees are charged. The Federal government and many states also apply transaction-based taxes to sales of TDS products and services and to purchases of telecommunications services from various carriers. In addition, state regulators and local governments have imposed and may continue to impose various surcharges, taxes and fees on TDS services. The applicability of these surcharges and fees to its services is uncertain in many cases and jurisdictions may contest whether TDS has assessed and remitted those monies correctly. Periodically state and federal regulators may increase or change the surcharges and fees TDS currently pays. In some instances TDS passes through these charges to its customers. However, Congress, the FCC, state regulatory agencies or state legislatures may limit the ability to pass through to customers transaction-based tax liabilities, regulatory surcharges and regulatory fees imposed

on TDS. TDS may or may not be able to recover some or all of those taxes from its customers and the amount of taxes may deter demand for its services or increase its cost to provide service which could have a material adverse effect on its business, financial condition or operating results.

21) Changes in TDS enterprise value, changes in the market supply or demand for wireless licenses or wireline markets, adverse developments in the business or the industry 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.

A large portion of TDS assets consists of intangible assets in the form of licenses and goodwill. TDS also has substantial investments in long-lived assets such as property, plant and equipment. TDS reviews its licenses, goodwill and other long-lived assets for impairment annually or whenever events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. An impairment loss may need to be recognized to the extent the carrying value of the assets exceeds the fair value of such assets. The amount of any such impairment loss could be significant and could have a material adverse effect on TDS reported financial results for the period in which the loss is recognized. The estimation of fair values requires assumptions by management about factors that are uncertain including future cash flows, the appropriate discount rate and other factors. Different assumptions for these factors could create materially different results.

22) Costs, integration problems or other factors associated with developing and enhancing business support systems, acquisitions/divestitures of properties or licenses and/or expansion of TDS business could have an adverse effect on TDS business, financial condition or results of operations.

As part of TDS operating strategy, TDS may change the markets in which it operates and the services that it provides through the acquisition of other telecommunications service providers and related service businesses, the acquisition of selected licenses or operating markets from such providers or through direct investment or divestiture of current operations. The acquisition of additional businesses will depend on TDS ability to identify suitable acquisition candidates, to negotiate acceptable terms for their acquisition and to finance any such acquisitions. TDS also will be subject to competition for suitable acquisition candidates. Any acquisitions, if made, could divert the resources and management time of TDS and would require integration with TDS existing business operations and services. As a result, there can be no assurance that any such acquisitions will occur or that any such acquisitions, if made, would be made in a timely manner or on terms favorable to TDS or would be successfully integrated into TDS operations. These transactions commonly involve a number of risks, including:

- Ability to enter markets in which TDS has limited or no direct prior experience and competitors have stronger positions;
- Ability to manage businesses that are engaged in activities other than traditional wireline and wireless service, including TDS acquisition of two Hosted and Managed Services businesses in 2010 engaged in the provision of data center, managed hosting and cloud computing services;
- Uncertain revenues and expenses, with the result that TDS may not realize the growth in revenues, anticipated cost structure, profitability, or return on investment that it expects;
- Difficulty of integrating the technologies, services, products, operations and personnel of the acquired businesses;
- Diversion of management s attention;
- Disruption of ongoing business;
- Impact on TDS cash and available credit lines for use in financing future growth and working capital needs;
- Inability to retain key personnel;
- Inability to successfully incorporate acquired assets and rights into TDS service offerings;
- Inability to maintain uniform standards, controls, procedures and policies;
- Possible conditions to approval by the FCC, the Federal Trade Commission and/or the Department of Justice; and
- Impairment of relationships with employees, customers or vendors.

Failure to overcome these risks or any other problems encountered in these transactions could have a material adverse effect on TDS business, financial condition or results of operations.

If TDS expands into new telecommunications and related service businesses or markets, it may incur significant expenditures, a substantial portion of which must be made before any revenues will be realized. Such expenditures may increase as a result of the accelerated pace of regulatory and technological changes. Such expenditures, together with the associated high initial costs of providing service in new markets, may result in reduced cash flow until an adequate revenue base is established. There can be no assurance that an adequate revenue base will be established in any new technology or market which TDS pursues.

If TDS expands into new telecommunications and related service businesses or markets, it will incur certain additional risks in connection with such expansion, including increased legal and regulatory risks, and possible adverse reaction by some of its current customers. Such businesses and markets are highly competitive and, as a new entrant, TDS may be disadvantaged. The success of TDS entry into new telecommunications and related service businesses or markets will be dependent upon, among other things, TDS ability to select new equipment and software and to integrate the new equipment and software into its operations, to hire and train qualified personnel and to enhance its existing administrative, financial and information systems to accommodate the new businesses or markets. No assurance can be given that TDS will be successful with respect to these efforts.

If TDS is not successful with respect to its expansion initiatives, its business, financial condition or results of operations could be adversely affected.

23) 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 has relationships with agents to obtain customers. Agents are independent business people who obtain customers for TDS on a commission basis. TDS agents are generally in the business of selling wireless telephones, wireless service packages and other related products. Also, TDS agents include major appliance dealers and car stereo companies.

TDS business and growth depends, in part, on the maintenance of satisfactory relationships with its agents. As a result of continued weak economic conditions, many companies, including certain TDS agents, are having financial difficulties. If such relationships are seriously harmed or if such parties experience further financial difficulties, including bankruptcy, TDS revenues and, as a result, its financial condition or results of operations, could be adversely affected.

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

TDS is making investments in various new technologies and service and product offerings. These investments include technologies for enhanced data services offerings. TDS expects new services, products and solutions based on these new technologies to contribute to future growth in its revenues. However, the markets for some of these services, products and solutions are still emerging and the overall potential for these markets remains uncertain. If customer demand for these new services, products and solutions does not develop as expected, TDS financial condition or results of operations could be adversely affected.

25) 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 and support systems could have an adverse effect on its operations.

TDS business plan includes significant construction activities and enhancements to its network. As TDS deploys, expands, and enhances its network, it may need to acquire additional spectrum. Also, as TDS continues to build out and enhance its network, TDS must, among other things, continue to:

- Lease, acquire or otherwise obtain rights to cell and switch sites;
- Obtain zoning variances or other local governmental or third-party approvals or permits for network construction;
- Complete and update the radio frequency design, including cell site design, frequency planning and network optimization, for each of TDS markets; and
- Improve, expand and maintain customer care, network management, billing and other financial and management systems.

Any difficulties encountered in completing these activities, as well as problems in vendor equipment availability, technical resources, system performance or system adequacy, could delay expansion of operations and product capabilities in new or existing markets or result in increased costs in all markets. Failure to successfully build out and enhance TDS network and necessary support facilities and systems in a cost-effective manner, and in a manner that satisfies customer expectations for quality and coverage, could have an adverse effect on TDS business, business prospects, financial condition or results of operations.

26) Financial difficulties (including bankruptcy proceedings) or other operational difficulties of TDS key suppliers or vendors, termination or impairment of TDS relationships with such suppliers or vendors, 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 depends upon certain vendors to provide it with equipment, services or content to continue its network construction and upgrade and to operate its business. TDS does not have operational or financial control over such key suppliers and has limited influence with respect to the manner in which these key suppliers conduct their businesses. If these key suppliers experience financial difficulties or file for bankruptcy or experience other operational difficulties, they may be unable to provide equipment, services or content to TDS on a timely basis or cease to provide such equipment, services or content or otherwise fail to honor their obligations to TDS. In such case, TDS may be unable to maintain and upgrade its network or provide services to its customers in a competitive manner, or could suffer other disruptions to its business. In that event, TDS business, financial condition or results of operations could be adversely affected.

27) 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.

TDS has significant investments in entities that it does not control, including a 5.5% ownership interest in the Los Angeles SMSA Limited Partnership (the LA Partnership), and limited partnership interests in Aquinas Wireless L.P., King Street Wireless L.P., Barat Wireless L.P. and Carroll Wireless L.P. TDS interests in such entities do not provide TDS with control over the business strategy, financial goals, build-out plans or other operational aspects of these entities. TDS cannot provide assurance that these entities will operate in a manner that will increase the value of TDS investments, that TDS proportionate share of income from the LA Partnership will continue at the current level in the future or that TDS will not incur losses from the holding of such investments. Losses in the values of such investments or a reduction in income from the LA Partnership could adversely affect TDS financial condition or results of operations.

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28) 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.

TDS relies extensively on its telecommunication networks and information technology to operate and manage its business, process transactions and summarize and report results. These networks and technology become obsolete over time and must be upgraded, replaced and/or otherwise enhanced over time. Enhancements must be more flexible and robust than ever before. All of this is capital intensive and challenging. A failure by TDS to maintain flexible and capable telecommunication networks or information technology could have an adverse effect on TDS business, financial condition or results of operations.

The increased provision of data services have introduced significant new demands on TDS network and have also increased complexities related to network management. As it relates to TDS wireline networks, the transition to new IP-based networks from well established time-division multiplexing networks requires new support tools and technician skills. Further, this transition requires the use of more leased facilities and partnerships which require enhanced network monitoring and controls. The IP-based networks also generally require more electronics on customers premises which introduces more technical risks and makes diagnostics and repairs more difficult.

Further, the increased provision of data services on TDS networks has created an increased level of risk related to quality of service. This is due to the fact that many customers, particularly commercial customers, increasingly rely on data communications to execute and validate transactions. As a result, redundancy and geographical diversity of TDS network facilities are critical to providing uninterrupted service. Also,

the speed of repair and maintenance procedures in the event of network interruptions is critical to maintaining customer satisfaction. TDS ability to maintain high quality, uninterrupted service to its customers is critical, particularly given the increasingly competitive environment and customers ability to choose other service providers.

In addition, TDS networks and information technology are subject to damage or interruption due to various events, including power outages, computer, network and telecommunications failures, computer viruses, security breaches, hackers, catastrophic events, natural disasters, errors or unauthorized actions by employees and vendors, flawed conversion of systems, disruptive technologies and technology changes. If TDS networks and information technology are not adequately adapted to changes in technology or are damaged or fail to function properly, and/or if TDS security is breached or otherwise compromised, TDS could suffer material adverse consequences, including loss of critical and private data, including customer data, interruptions or delays in its operations, inaccurate billings, inaccurate financial reporting, and significant costs to remedy the problems. If TDS systems become unavailable or suffer a security breach of customer or other data, TDS may be required to expend significant resources and take various actions to address the problems, including notification under data privacy laws and regulations, may be subject to fines, sanctions and litigation, and its reputation and operating results could be adversely affected. Any material disruption in TDS networks or information technology, including security breaches, could have an adverse effect on TDS business, financial condition or results of operations.

29) 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.

Wars, conflicts, hostilities, terrorist attacks, major equipment failures, power outages, natural disasters, or similar disasters or failures that affect TDS wireless or wireline telephone switching offices, information systems, microwave links, third-party owned local and long-distance networks on which TDS relies, TDS cell sites or other equipment or the networks of other providers which TDS customers use or on which they roam could have a material adverse effect on TDS operations. Although TDS has certain back-up and similar arrangements, TDS has not established a formal, comprehensive business continuity or emergency response plan at this time. As a result, under certain circumstances, TDS may not be prepared to continue its operations, respond to emergencies or recover from disasters or other similar events. TDS inability to operate its telecommunications systems or access or operate its information systems even for a limited time period may result in a loss of customers or impair TDS ability to serve customers or attract new customers, which could have an adverse effect on TDS business, financial condition or results of operations.

30) The market prices of TDS Common Shares and Special Common Shares are subject to fluctuations due to a variety of factors.

Factors that may affect the future market prices of TDS Common Shares and Special Common Shares include:

- General economic conditions, including conditions in the credit and financial markets;
- Wireless and telecommunications industry conditions;
- Fluctuations in TDS quarterly customer additions, churn rate, revenues, results of operations or cash flows;
- Variations between TDS actual financial and operating results and those expected by analysts and investors; and
- Announcements by TDS competitors.

Any of these or other factors could adversely affect the future market prices of TDS Common Shares or Special Common Shares, or could cause the future market prices of TDS Common Shares or Special Common Shares to fluctuate from time to time.

31) 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 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.

TDS prepares its consolidated financial statement in accordance with accounting principles generally accepted in the United States of America (GAAP) and files such financial statements with the SEC in accordance with the SEC s rules and regulations. The possible identification of any errors in such prior filings with the SEC could require restatements of financial information or amendments to disclosures included in this or prior filings with the SEC.

Restatements and delays in filing reports with the SEC could have adverse consequences, including the following: TDS credit ratings could be downgraded, which would result in an increase in its borrowing costs and could make it more difficult for TDS to borrow funds on satisfactory terms. The lenders on TDS and U.S. Cellular s revolving credit agreements could refuse to waive a default or extend a waiver of default, impose restrictive covenants or conditions or require increased payments and fees. The holders of debt under TDS indenture could attempt to assert a default and, if successful and TDS does not cure the default in a timely manner, accelerate such debt. The New York Stock Exchange could begin delisting proceedings with respect to the TDS Common Shares, TDS Special Common Shares and TDS debt that is listed thereon. TDS may not be able to use or file shelf registration statements on Form S-3 for an extended period of time, which may limit TDS ability to access the capital markets. TDS may not be able to use Form S-8 registration statements relating to its employee benefit plans, which may have an adverse affect on TDS ability to attract and retain employees. TDS also could face shareholder litigation or SEC enforcement action. Any of these events could have an adverse effect on TDS business, financial condition or results of operations.

32) 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.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, TDS is required to furnish a report of management s assessment of the design and effectiveness of its internal control over financial reporting as part of its Form 10-K filed with the SEC. TDS management also is required to report on the effectiveness of TDS disclosure controls and procedures. The independent auditors of TDS are required to attest to, and report on, the effectiveness of internal control over financial reporting. Material weaknesses 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. Further, if TDS does not successfully remediate any known material weaknesses in a timely manner, it could be subject to sanctions by regulatory authorities such as the SEC, it could fail to timely meet its regulatory reporting obligations, or investor perceptions could be negatively affected; each of these potential consequences could have an adverse effect on TDS business, financial condition or results of operations.

33) 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 financial condition or results of operations.

The preparation of financial statements requires TDS to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. TDS bases its estimates on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and

liabilities. Actual results may differ from estimates under different assumptions or conditions. 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 financial condition or results of operations.

34) 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 financial condition or results of operations.

Disruptions in the credit and financial markets, declines in consumer confidence, increases in unemployment, declines in economic growth and uncertainty about corporate earnings could have a significant negative impact on the U.S. and global financial and credit markets and the overall economy. Such events could have an adverse impact on financial institutions resulting in limited access to capital and credit for many companies. Furthermore, economic uncertainties make it very difficult to accurately forecast and plan future business activities. Changes in economic conditions, changes in financial markets, deterioration in the capital markets or other factors could have an adverse effect on TDS financial position, revenues, results of operations and cash flows.

35) Uncertainty of access to capital for telecommunications companies, 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.

TDS and its subsidiaries operate capital-intensive businesses. TDS has used internally-generated funds and has also obtained substantial funds from external sources to finance the build out and enhancement of markets, to fund acquisitions and for general corporate purposes. TDS also may require substantial additional capital for, among other uses, acquisitions of providers of wireless or wireline telecommunications services, related service business acquisitions, spectrum license or system acquisitions, system development and network capacity expansion. There can be no assurance that sufficient funds will continue to be available to TDS or its subsidiaries on terms or at prices acceptable to TDS. Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, reduced regulatory capital at banks which in turn limits their ability to borrow, 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 and acquisition programs. Reduction of TDS construction, development and acquisition programs likely would have a negative impact on TDS consolidated revenues, income and cash flows.

36) 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 financial condition, results of operations or ability to do business.

TDS is regularly involved in a number of legal proceedings before the FCC and various state and federal courts. Such legal proceedings can be complex, costly, protracted and highly disruptive to business operations by diverting the attention and energies of management and other key personnel.

The assessment of legal proceedings is a highly subjective process that requires judgments about future events. The amounts ultimately received or paid upon settlement or other resolution of litigation and other contingencies may differ materially from amounts accrued in the financial statements. In addition, litigation or similar proceedings could impose restraints on TDS current or future manner of doing business. Such potential outcomes could have an adverse effect on TDS financial condition, results of operations or ability to do business.

37) 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.

Media reports have suggested that certain radio frequency emissions from wireless devices may be linked to various health problems, including cancer or tumors, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Concerns over radio frequency emissions may discourage use of wireless devices or expose TDS to potential litigation. Any resulting decrease in demand for wireless services or costs of litigation and damage awards could have an adverse effect on TDS business, financial condition or results of operations.

In addition, some studies have indicated that some aspects of using wireless devices while driving may impair drivers attention in certain circumstances, making accidents more likely. These concerns could lead to potential litigation relating to accidents, deaths or serious bodily injuries, any of which could have an adverse effect on TDS business, financial condition or results of operations.

Numerous state and local legislative bodies have enacted or proposed legislation restricting or prohibiting the use of wireless devices while driving motor vehicles. These enacted or proposed laws or other similar laws, if passed, could have the effect of reducing customer usage and/or increasing costs, which could have an adverse effect on TDS business, financial condition, or results of operations.

38) 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 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.

If technology that TDS uses in products or services were determined by a court to infringe a patent or other intellectual property right held by another person, TDS could be precluded from using that technology and could be required to pay significant monetary damages. TDS also may be required to pay significant royalties to such person to continue to use such technology in the future. The successful enforcement of any intellectual property rights, or TDS inability to negotiate a license for such rights on acceptable terms, could force TDS to cease using the relevant technology and offering services incorporating the technology. Any litigation to determine the validity of claims that TDS products or services infringe or may infringe intellectual property rights of another, regardless of their merit or resolution, could be costly and divert the effort and attention of TDS management and technical personnel. Regardless of the merits of any specific claim, TDS cannot give assurance that it would prevail in litigation because of the complex technical issues and inherent uncertainties in intellectual property litigation. Although TDS generally seeks to obtain indemnification agreements from vendors that provide it with technology, there can be no assurance that any claim of infringement will be covered by an indemnity or that TDS will be able to recover all or any of its losses and costs under any available indemnity agreements. Any claims of infringement of intellectual property and proprietary rights of others could prevent TDS from using necessary technology to provide its 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.

39) 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.

The TDS Restated Certificate of Incorporation, as amended, and the TDS bylaws contain provisions which may serve to discourage or make more difficult a change in control of TDS without the support of the TDS Voting Trust and the TDS Board of Directors or without meeting various other conditions.

The TDS Restated Certificate of Incorporation, as amended, authorizes the issuance of different series of common stock, which have different voting rights. The TDS Series A Common Shares have the power to elect approximately 75% (less one) of the directors and have ten votes per share in matters other than the election of directors. The TDS Common Shares (with one vote per share) and TDS Special Common Shares (with one vote per share) vote as a separate group only with respect to the election of 25% (plus one) of the directors. In matters other than the election of such directors, the TDS Common Shares have one vote per share and the TDS Special Common Shares have no votes except as required by law. As a result, the TDS Special Common Shares would generally not have any vote in connection with any change of control transaction involving TDS.

A substantial majority of the outstanding TDS Series A Common Shares are held in the TDS Voting Trust which expires on June 30, 2035. The TDS Voting Trust was created to facilitate the long-standing relationships among the trustees certificate holders. By virtue of the number of shares held by them, the voting trustees have the power to elect eight directors based on the current TDS Board of Directors size of 12 directors, and control a majority of the voting power of TDS with respect to matters other than the election of directors.

The existence of the TDS Voting Trust is likely to deter any potential unsolicited or hostile takeover attempts or other efforts to obtain control of TDS and may make it more difficult for shareholders to sell shares of TDS at higher than market prices. The trustees of the TDS Voting Trust have advised TDS that they intend to maintain the ability to keep or dispose of voting control of TDS.

The TDS Restated Certificate of Incorporation, as amended, also authorizes the TDS Board of Directors to designate and issue TDS Undesignated Shares in one or more classes or series of preferred or common stock from time to time. Generally, no further action or authorization by the shareholders is necessary prior to the designation or issuance of the additional TDS Undesignated Shares authorized pursuant to the TDS restated certificate of incorporation, as amended, unless applicable laws or regulations would require such approval in a given instance. Such TDS Undesignated Shares could be issued in circumstances that would serve to preserve control of TDS then existing management.

In addition, the TDS Restated Certificate of Incorporation, as amended, includes a provision which authorizes the TDS Board of Directors to consider various factors, including effects on customers, taxes, and the long-term and short-term interests of TDS, in the context of a proposal or offer to acquire or merge the corporation, or to sell its assets, and to reject such offer if the TDS Board of Directors determines that the proposal is not in the best interests of the corporation based on such factors.

The provisions of the TDS restated certificate of incorporation, as amended, and the TDS bylaws and the existence of various classes of capital stock could prevent shareholders from profiting from an increase in the market value of their shares as a result of a change in control of TDS by delaying or preventing such change in control.

40) Any of the foregoing events or other events could cause customer net additions, revenues, operating income, capital expenditures and/or any other financial or statistical information to vary from TDS forward-looking estimates by a material amount.

From time to time, TDS may disclose forward-looking information, including estimates of future operating income; depreciation, amortization and accretion expenses; service revenues; net retail customer additions; and/or capital expenditures. Any such forward-looking information includes consideration of known or anticipated changes to the extent disclosed, but unknown or unanticipated events, including but not limited to the risks discussed above, could cause such estimates to differ materially from the actual amounts.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

U.S. Cellular

The physical properties for mobile telephone switching offices, cell sites, call centers and retail locations are located primarily in U.S. Cellular s operating markets and are either owned or leased under long-term leases by U.S. Cellular, one of its subsidiaries, or the partnership or corporation which holds the license issued by the FCC.

U.S. Cellular leases space for its corporate offices in Chicago and Bensenville, Illinois and its four regional offices, and owns its Network Operations Center in Schaumburg, Illinois. U.S. Cellular operates five customer care centers; one of the facilities used in these operations is owned and four are leased.

TDS Telecom

The physical properties of TDS Telecom are located primarily in its operating markets and consist principally of telephone lines and network electronic equipment for both the ILEC and CLEC operations, and land and buildings associated with ILEC operations. TDS Telecom owns most of its central office buildings, local administrative buildings and storage facilities used in its ILEC operations. TDS Telecom leases most of its offices, switching facility buildings, storage facilities and sales offices used in its CLEC operations.

TDS Telecom leases space for its corporate headquarters office in Madison, Wisconsin.

Corporate

TDS leases space for its corporate offices in Chicago, Illinois and Middleton, Wisconsin.

General

U.S. Cellular s cell and transmitter sites and TDS Telecom s telephone lines are located on private and public property. Locations on private land are by virtue of easements or other arrangements. U.S. Cellular and TDS Telecom have not experienced major problems with obtaining zoning approval for cell and transmitter sites, telephone lines or other operating facilities and do not anticipate significant problems in this area in future periods.

U.S. Cellular s and TDS Telecom s properties, plant and equipment are maintained in good operating condition and are suitable and adequate for TDS business operations.

As of December 31, 2010, Property, plant and equipment, net of accumulated depreciation, totaled $2,615.1 million at U.S. Cellular, $824.3 million at TDS Telecom s ILEC and $85.6 million at TDS Telecom s CLEC; and $33.3 million at Corporate and Suttle-Straus.

Item 3. Legal Proceedings

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

Item 4. [Removed and Reserved]

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market, holder and dividend information is incorporated by reference from Exhibit 13 to this Form 10-K, Annual Report sections entitled Stock and Dividend Information and Consolidated Quarterly Information (Unaudited).

Information relating to Issuer Purchases of Equity Securities is set forth below.

On November 19, 2009, the Board of Directors of TDS authorized a $250 million stock repurchase program for both TDS Common and Special Common shares. Depending on market conditions, such shares may be repurchased in compliance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended (Exchange Act), pursuant to Rule 10b5-1 under the Exchange Act, or pursuant to accelerated share repurchase arrangements, prepaid share repurchases, private transactions or as otherwise authorized. This authorization will expire in November 2012.

The following table provides certain information with respect to all purchases made by or on behalf of TDS, and any open market purchases made by any affiliated purchaser (as defined by the SEC) of TDS, of TDS Special Common Shares and Common Shares during the fourth quarter of 2010.

TDS PURCHASES OF SPECIAL COMMON SHARES AND COMMON SHARES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Dollar Value of Shares that may yet be Purchased Under the Plans or Programs
October 1 - 31, 2010				
Common		$		
Special Common	518,423	28.48	518,423	
Total	518,423	28.48	518,423	$ 181,813,478
November 1 - 30, 2010				
Common				
Special Common	91,854	29.86	91,854	
Total	91,854	29.86	91,854	179,070,730
December 1 - 31, 2010				
Common				
Special Common				
Total				179,070,730
Total as of or for the quarter ended December 31, 2010				
Common				
Special Common	610,277	28.69	610,277	

Total	610,277	$	28.69	610,277	$	179,070,730

The following is additional information with respect to the Common and Special Common Shares authorization:

i. The date the program was announced was November 20, 2009 by Form 8-K.

ii. The amount originally approved was up to $250 million in aggregate purchase price of TDS Common and Special Common Shares.

iii. The expiration date for the program is November 19, 2012.

iv. The Common and Special Common Shares authorization did not expire during the fourth quarter of 2010.

v. TDS did not determine to terminate the foregoing Common and Special Common Shares repurchase program prior to expiration, or to cease making further purchases thereunder, during the fourth quarter of 2010.

Item 6. Selected Financial Data

Incorporated by reference from Exhibit 13 to this Form 10-K, Annual Report section entitled Selected Consolidated Financial Data, except for Ratio of earnings to fixed charges, which is incorporated herein by reference from Exhibit 12 to this Form 10-K.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Incorporated by reference from Exhibit 13 to this Form 10-K, Annual Report section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Incorporated by reference from Exhibit 13 to this Form 10-K, Annual Report section entitled Market Risk.

Item 8. Financial Statements and Supplementary Data

Incorporated by reference from Exhibit 13 to this Form 10-K, Annual Report sections entitled Consolidated Statement of Operations, Consolidated Statement of Cash Flows, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Comprehensive Income, Notes to Consolidated Financial Statements, Consolidated Quarterly Information (Unaudited), Management s Report on Internal Control Over Financial Reporting and Report of Independent Registered Public Accounting Firm.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

TDS maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to TDS management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rule 13a-15(b), TDS carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of TDS disclosure controls and procedures as of the end of the period covered by this Annual Report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that TDS disclosure controls and procedures were effective as of December 31, 2010, at the reasonable assurance level.

Management s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. TDS internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (GAAP). TDS internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and, where required, the board of directors of the issuer; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the issuer s assets that could have a material effect on the interim or annual consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of TDS management, including its Chief Executive Officer and Chief Financial Officer, TDS conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has concluded that TDS maintained effective internal control over financial reporting as of December 31, 2010 based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

The effectiveness of TDS internal control over financial reporting as of December 31, 2010 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in the firm s report which is incorporated by reference into Item 8 of this Annual Report on Form 10-K from Exhibit 13 filed herewith.

Changes in Internal Control Over Financial Reporting

There were no changes in TDS internal control over financial reporting during the fourth quarter of 2010 that have materially affected, or are reasonably likely to materially affect, TDS internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Incorporated by reference from Proxy Statement sections entitled Election of Directors, Corporate Governance, Executive Officers and Section 16(a) Beneficial Ownership Reporting Compliance.

Item 11. Executive Compensation

Incorporated by reference from Proxy Statement section entitled Executive and Director Compensation.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated by reference from Proxy Statement sections entitled Security Ownership of Certain Beneficial Owners and Management and Securities Authorized for Issuance under Equity Compensation Plans.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated by reference from Proxy Statement sections entitled Corporate Governance and Certain Relationships and Related Transactions.

Item 14. Principal Accountant Fees and Services

Incorporated by reference from Proxy Statement section entitled Fees Paid to Principal Accountants.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as a part of this report:

(1) Financial Statements

Consolidated Statement of Operations	Annual Report*
Consolidated Statement of Cash Flows	Annual Report*
Consolidated Balance Sheet	Annual Report*
Consolidated Statement of Changes in Equity	Annual Report*
Consolidated Statement of Comprehensive Income	Annual Report*
Notes to Consolidated Financial Statements	Annual Report*
Consolidated Quarterly Information (Unaudited)	Annual Report*
Management s Report on Internal Control Over Financial Reporting	Annual Report*
Report of Independent Registered Public Accounting Firm PricewaterhouseCoopers LLP	Annual Report*

* Incorporated by reference from Exhibit 13.

(2) Financial Statement Schedules

	Location
Report of Independent Registered Public Accounting Firm on Financial Statement Schedule PricewaterhouseCoopers LLP	page S-1
Schedule II. Valuation and Qualifying Accounts	page S-2
Los Angeles SMSA Limited Partnership Financial Statements	page S-3
Report of Independent Registered Public Accounting Firm Deloitte & Touche LLP	page S-4
Balance Sheets	page S-5
Statements of Operations	page S-6
Statements of Changes in Partners Capital	page S-7
Statements of Cash Flows	page S-8
Notes to Financial Statements	page S-9

All other schedules have been omitted because they are not applicable or not required because the required information is shown in the financial statements or notes thereto.

(3) Exhibits

The exhibits set forth in the accompanying Index to Exhibits are filed as a part of this Report. Compensatory plans or arrangements are identified in the Index to Exhibits with an asterisk.

Report of Independent Registered Public Accounting Firm on

Financial Statement Schedule

To the Board of Directors of

Telephone and Data Systems, Inc.:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 25, 2011 appearing in the 2010 Annual Report to Shareholders of Telephone and Data Systems, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, based on our audits and the report of other auditors, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Chicago, Illinois

February 25, 2011

TELEPHONE AND DATA SYSTEMS, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Description Column A (Dollars in thousands)	Balance at Beginning of Period Column B	Additions Charged to Costs and Expenses Column C-1	Additions Charged to Other Accounts Column C-2	Deductions Column D	Balance at End of Period Column E
For the Year Ended December 31, 2010					
Deducted from deferred tax asset:					
Valuation allowance (1)	$ (63,870)	$ 293	$ (7,437)	$	$ (71,014)
Deducted from accounts receivable:					
Allowance for doubtful accounts	(37,623)	(83,098)		85,714	(35,007)
For the Year Ended December 31, 2009					
Deducted from deferred tax asset:					
Valuation allowance	$ (78,760)	$ 13,762	$ 1,128	$	$ (63,870)
Deducted from accounts receivable:					
Allowance for doubtful accounts	(19,202)	(115,989)		97,568	(37,623)
For the Year Ended December 31, 2008					
Deducted from deferred tax asset:					
Valuation allowance	$ (74,867)	$	$ (3,893)	$	$ (78,760)
Deducted from accounts receivable:					
Allowance for doubtful accounts	(21,929)	(83,004)		85,731	(19,202)

(1) As of December 31, 2010, the valuation allowance reduced current deferred tax assets by $1.4 million and noncurrent deferred tax assets by $69.6 million.

LOS ANGELES SMSA LIMITED PARTNERSHIP

FINANCIAL STATEMENTS

TDS subsidiary, U.S. Cellular, owns a 5.5% limited partnership interest in the Los Angeles SMSA Limited Partnership and accounts for such interest by the equity method. The partnership s financial statements were obtained by U.S. Cellular as a limited partner.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of Los Angeles SMSA Limited Partnership:

We have audited the accompanying balance sheets of Los Angeles SMSA Limited Partnership (the Partnership) as of December 31, 2010 and 2009, and the related statements of operations, changes in partners capital, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Partnership s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Partnership s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Partnership as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Atlanta, Georgia

February 25, 2011

Los Angeles SMSA Limited Partnership

Balance Sheets - As of December 31, 2010 and 2009

(Dollars in Thousands)

	2010	2009
ASSETS		
CURRENT ASSETS:		
Accounts receivable, net of allowance of $15,135 and $17,688	$ 285,691	$ 281,946
Unbilled revenue	21,238	20,040
Due from affiliate	333,022	431,698
Prepaid expenses and other current assets	3,652	3,696
Total current assets	643,603	737,380
PROPERTY, PLANT AND EQUIPMENT Net	1,637,181	1,544,788
WIRELESS LICENSES	79,543	79,543
OTHER ASSETS	858	545
TOTAL ASSETS	$ 2,361,185	$ 2,362,256
LIABILITIES AND PARTNERS CAPITAL		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 85,162	$ 85,832
Advance billings and customer deposits	126,505	104,869
Deferred gain on lease transaction	4,923	4,923
Total current liabilities	216,590	195,624
LONG TERM LIABILITIES		
Deferred gain on lease transaction	43,739	48,678
Other long term liabilities	16,632	12,429
Total long term liabilities	60,371	61,107
Total liabilities	276,961	256,731
COMMITMENTS AND CONTINGENCIES (see Notes 6 and 7)		
PARTNERS CAPITAL	2,084,224	2,105,525
TOTAL LIABILITIES AND PARTNERS CAPITAL	$ 2,361,185	$ 2,362,256

See notes to financial statements.

Los Angeles SMSA Limited Partnership

Statements of Operations - Years Ended December 31, 2010, 2009 and 2008

(Dollars in Thousands)

	2010	2009	2008
OPERATING REVENUE			