TELEPHONE & DATA SYSTEMS INC /DE/
Form ARS
April 14, 2011

TELEPHONE AND DATA SYSTEMS, INC.

ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2010
Pursuant to SEC Rule 14a-3

The following audited financial statements and certain other financial information for the year ended December 31, 2010, represent Telephone and Data Systems' annual report to shareholders as required by the rules and regulations of the Securities and Exchange Commission ("SEC").

The following information was filed with the SEC on February 25, 2011 as Exhibit 13 to Telephone and Data Systems' Annual Report on Form 10-K for the year ended December 31, 2010. Such information has not been updated or revised since the date it was originally filed with the SEC. Accordingly, you are encouraged to review such information together with any subsequent information that we have filed with the SEC and other publicly available information.

Table of Contents

Exhibit 13

Telephone and Data Systems, Inc. and Subsidiaries

Financial Reports Contents

Table of Contents

Telephone and Data Systems, Inc.

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

Telephone and Data Systems, Inc. ("TDS") is a diversified telecommunications company providing high-quality telecommunications services in 36 states to approximately 6.1 million wireless customers and 1.1 million wireline equivalent access lines at December 31, 2010. TDS conducts substantially all of its wireless operations through its 83%-owned subsidiary, United States Cellular Corporation ("U.S. Cellular"), and provides wireline services through its incumbent local exchange carrier ("ILEC") and competitive local exchange carrier ("CLEC") operations under its wholly owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom"). TDS conducts printing and distribution services through its majority-owned subsidiary, Suttle-Straus, Inc. ("Suttle-Straus") which represents a small portion of TDS' operations.

The following discussion and analysis should be read in conjunction with TDS' audited consolidated financial statements and the description of TDS' business included in Item 1 of the TDS Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2010.

OVERVIEW

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

U.S. Cellular

U.S. Cellular provides wireless telecommunications services to approximately 6.1 million customers in five geographic market areas in 26 states. As of December 31, 2010, U.S. Cellular's average penetration rate in its consolidated operating markets was 13.0%. U.S. Cellular operates on a customer satisfaction strategy, striving to meet or exceed customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network. U.S. Cellular's business development strategy is to acquire and 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 believes that operating in contiguous market areas will continue to provide it with certain economies in its capital and operating costs.

Financial and operating highlights in 2010 included the following:

- Total customers were 6,072,000 at December 31, 2010, including 5,729,000 retail customers.

- On October 1, 2010, U.S. Cellular launched The Belief Project which introduced several innovative service offerings including no contract after the first contract; simplified national rate plans; a loyalty rewards program; overage protection, caps and forgiveness; a phone replacement program; and discounts for paperless billing and automatic payment. As of December 31, 2010, nearly 1.2 million new and existing customers had adopted the new Belief Plans.

- Retail customer net losses were 15,000 in 2010 compared to net additions of 37,000 in 2009. In the postpaid category, there was a net loss of 66,000 in 2010, compared to net additions of 62,000 in 2009. Prepaid net additions were 51,000 in 2010 compared to a net loss of 25,000 in 2009.

- Postpaid customers comprised approximately 95% of U.S. Cellular's retail customers as of December 31, 2010. The postpaid churn rate improved to 1.5% in 2010 compared to 1.6% in 2009.

- Postpaid customers on smartphone service plans increased to 17% as of December 31, 2010 compared to 7% as of December 31, 2009. In addition, smartphones represented 25% of all devices sold in 2010 compared to 10% in 2009.

Service revenues of $3,913.0 million decreased $14.1 million year-over-year, primarily due to a decrease in retail service revenues of $18.7 million (1%). Retail service revenues decreased due to a

1

Telephone and Data Systems, Inc.

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

decline in the average number of customers of 55,000, partially offset by a slight increase in average monthly service revenue per customer.

Additions to Property, plant and equipment totaled $583.1 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, expand mobile broadband services based on third generation Evolution-Data Optimized technology ("3G") to additional markets, outfit new and remodel existing retail stores, develop new billing and other customer management related systems and platforms, and enhance existing office systems. Total cell sites in service increased 5% year-over-year to 7,645.

U.S. Cellular continued its efforts on a number of multi-year initiatives including the development of a Billing and Operational Support System ("B/OSS") with a new point-of-sale system to consolidate billing on one platform; an Electronic Data Warehouse/Customer Relationship Management System to collect and analyze information more efficiently and thereby build and improve customer relationships; and a new Internet/Web platform to enable customers to complete a wide range of transactions and to manage their accounts online.

In December 2010, U.S. Cellular entered into a new $300 million revolving credit agreement, which expires in December 2015, with certain lenders and other parties. As a result, U.S. Cellular's $300 million revolving credit agreement due to expire in June 2012 was terminated. U.S. Cellular entered into the new revolving credit agreement in order to obtain more favorable pricing, extended maturity and other terms and conditions.

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

The Belief Project, which is intended to accelerate growth and have a positive impact on long-term profitability by increasing postpaid gross additions over the next several years and by contributing to incremental growth in average revenue per customer and improvement of U.S. Cellular's already low postpaid churn rate;

Continued uncertainty related to current economic conditions and their impact on customer purchasing and payment behaviors;

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

Increased competition in the wireless industry, including potential reductions in pricing for products and services overall and impacts associated with the expanding presence of carriers offering low-priced, unlimited prepaid service;

Potential increases in prepaid customers, which generally generate lower ARPU, as a percentage of U.S. Cellular's customer base in response to changes in customer preferences and industry dynamics;

Increasing penetration in the wireless industry, requiring U.S. Cellular to grow revenues primarily from selling additional products and services to its existing customers, increasing the number of multi-device users among its existing customers, increasing data products and services and attracting wireless customers switching from other wireless carriers rather than by adding customers that are new to wireless service;

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

Effects of industry consolidation on roaming revenues, service pricing and equipment pricing;

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

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

Table of Contents

Telephone and Data Systems, Inc.

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

Uncertainty related to the National Broadband Plan and other rulemaking by the Federal Communications Commission ("FCC"), including uncertainty relating to future eligible telecommunication carrier ("ETC") funding from the universal service fund ("USF"); and

Exclusive arrangements between manufacturers of wireless devices and other carriers that restrict U.S. Cellular's access to devices desired by customers.

See "Results of Operations Wireless."

2011 Wireless Estimates

U.S. Cellular's estimates of full-year 2011 results are shown below. Such estimates represent U.S. Cellular's views as of the date of filing of U.S. Cellular's Form 10-K for the year ended December 31, 2010. Such forward-looking statements should not be assumed to be accurate as of any future date. U.S. Cellular undertakes no duty to update such information whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from such estimated results.

		2011 Estimated Results		2010 Actual Results
Service revenues	$	4,000 - 4,100 million	$	3,913.0 million
Adjusted OIBDA(1)(3)	$	775 - 875 million	$	783.1 million
Operating income(3)	$	185 - 285 million	$	195.4 million
Depreciation, amortization and accretion expenses, and losses on asset disposals and impairment of assets(2)		Approx. $590 million	$	587.8 million
Capital expenditures(3)		Approx. $650 million	$	583.1 million

(1) Adjusted OIBDA is defined as operating income excluding the effects of: depreciation, amortization and accretion (OIBDA); the net gain or loss on asset disposals (if any); and the loss on impairment of assets (if any). This measure also may be commonly referred to by management as operating cash flow. This measure should not be confused with Cash flows from operating activities, which is a component of the Consolidated Statement of Cash Flows.

(2) 2010 Actual Results include losses on asset disposals of $10.7 million and no losses on impairment of assets. The 2011 Estimated Results include only the estimate for Depreciation, amortization and accretion expenses and losses on disposals of assets, and do not include any estimate for losses on impairment of assets (since these cannot be predicted).

(3) This guidance is based on U.S. Cellular's current plans. New developments or changing competitive conditions in the wireless industry, such as the rate of deployment of 4G Long-term Evolution ("LTE") technology by other carriers, could affect U.S. Cellular's LTE deployment plans and, as a result, its capital expenditures and operating expenses.

U.S. Cellular management currently believes that the foregoing estimates represent a reasonable view of what is achievable considering actions that U.S. Cellular has taken and will be taking. However, the current general economic conditions in the markets served by U.S. Cellular have created a challenging business environment that could continue to significantly impact actual results. U.S. Cellular expects to continue its focus on customer satisfaction by delivering a high quality network, attractively priced service plans, a broad line of wireless devices and other products, and outstanding customer service in its company-owned and agent retail stores and customer care centers. U.S. Cellular believes that future growth in its revenues will result primarily from selling additional products and services, including data products and services, to its existing customers, increasing the number of multi-device users among its existing customers, and attracting wireless users switching from other wireless carriers, rather than by adding users that are new to wireless service. U.S. Cellular is focusing on opportunities to increase revenues, pursuing cost reduction initiatives in various areas and implementing a number of initiatives to

Telephone and Data Systems, Inc.

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

enable future growth. The initiatives are intended, among other things, to allow U.S. Cellular to accelerate its introduction of new products and services, better segment its customers for new services and retention, sell additional services such as data, expand its Internet sales and customer service capabilities, improve its prepaid products and services and reduce operational expenses over the long term.

TDS Telecom

TDS Telecom provides high-quality telecommunication services, including full-service local exchange service, long-distance telephone service and broadband access, to rural and suburban area communities. TDS Telecom's business plan is designed for a full-service telecommunications company, including both ILEC and CLEC operations. TDS Telecom's strategy is to be the preferred provider of voice, high-speed data, and video services in its chosen markets and also offers a wide range of IP-based voice and data services to businesses. This strategy encompasses many components, including:

- Developing services and products;
- Formulating market and customer strategies;
- Investing in networks and deploying advanced technologies;
- Assessing the competitive environment and responding as appropriate;
- Advocating with respect to state and federal regulations for positions that support its ability to provide advanced telecommunications services to its customers; and
- Exploring transactions to acquire or divest properties that would result in strengthening its operations.

Both TDS Telecom's ILEC and CLEC operations 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 in the future.

Financial and operating highlights for 2010 include the following:

- Overall equivalent access lines served by TDS Telecom decreased 29,200 to 1,102,600 as compared to December 31, 2009. 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. A physical access line is an individual circuit connecting a customer to a telephone company's central office facilities. Each digital subscriber line ("DSL") is treated as an equivalent access line in addition to a voice line that may operate on the same copper loop.
- Operating revenues increased $6.0 million or 1% to $795.8 million in 2010. The increase was primarily due to an increase in ILEC data customers and revenue from acquisitions partially offset by a decrease in revenues from ILEC and CLEC physical access lines.

Operating expenses of $696.0 million remained flat in 2010 as a result of workforce reduction initiatives and employee benefit modifications implemented during 2009, and reduced expenses of acquiring and serving fewer CLEC customers, offset by an increase in operating expenses due to acquisitions.

In 2010, TDS acquired two managed services companies to provide colocation, dedicated hosting, managed services, Internet and virtual "cloud" computing services ("Hosted and Managed Services") to small and medium-sized companies.

Table of Contents

Telephone and Data Systems, Inc.

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

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

- Continued uncertainty related to current economic conditions and the challenging business environment;
- Continued increases in competition from wireless and other wireline providers (other CLECs and cable providers) and technologies such as VoIP, third generation ("3G") mobile networks, and the development of fourth-generation mobile technology ("4G");
- Continued increases in high-speed data customers;
- Continued declines in physical access lines related to voice and second lines;
- Continued focus on customer retention programs, including discounting for "triple-play" bundles that provide voice, DSL and TV;
- Continued focus on cost-reduction initiatives through product cost improvement and process efficiencies;
- The effects on competition of recent industry consolidation, such as the agreement by CenturyTel (d/b/a CenturyLink) to acquire Qwest International, and possible further industry consolidation;
- The Federal government's disbursement of Broadband Stimulus Funds to bring broadband to rural customers;
- Uncertainty related to the National Broadband Plan and other rulemaking by the FCC, including uncertainty relating to future funding from the USF; and
- Potential acquisitions by TDS Telecom, including additional potential acquisitions of Hosted and Managed Services businesses.

See "Results of Operations Wireline."

2011 Wireline Estimates

TDS Telecom's estimates of full-year 2011 results are shown below. Such estimates represent TDS Telecom's view as of the filing date of TDS' Form 10-K for the year ended December 31, 2010. Such forward-looking statements should not be assumed to be accurate as of any future date. TDS undertakes no duty to update such information whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from such estimated results.

	2011 Estimated Results	2010 Actual Results
ILEC and CLEC operations:		
Operating revenues	$780 - $810 million	$ 795.8 million
Adjusted OIBDA(1)	$260 - $290 million	$ 275.0 million
Operating income	$75 - $105 million	$ 99.8 million
	Approx. $185 million	$ 175.2 million

Depreciation, amortization and accretion expenses and losses on asset disposals and impairment of assets(2)		
Capital expenditures(3)	$175 - $200 million	$ 157.3 million

(1)
Adjusted OIBDA is defined as operating income excluding the effects of: depreciation, amortization and accretion (OIBDA); the net gain or loss on asset disposals (if any); and the loss on impairment of assets (if any). This measure also may be commonly referred to by management as operating cash flow. This measure should not be confused with Cash flows from operating activities, which is a component of the Consolidated Statement of Cash Flows.

(2)
2010 Actual Results include losses on disposals of $1.1 million and no losses on impairment of assets. The 2011 Estimated Results include only the estimate for Depreciation, amortization and

Telephone and Data Systems, Inc.

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

accretion expenses and losses on asset disposals, and do not include any estimate for losses on impairment of assets since these cannot be predicted.

(3) TDS Telecom will fund its share for projects approved under the American Recovery and Reinvestment Act of 2009 to increase broadband access in unserved areas. Under the Recovery Act, TDS Telecom will receive $105.1 million in federal grants and will provide $30.9 million of its own funds to complete 44 projects over the next 24 to 36 months.

The foregoing estimates reflect the expectations of TDS Telecom's management considering its strategic plans and the current general economic conditions. In this challenging business environment, TDS Telecom will continue to focus on revenue growth through new service offerings as well as expense reduction through product cost improvement and process efficiencies. In order to achieve these objectives the company has allocated capital expenditures for:

- Process and productivity initiatives,
- Increased network and product capabilities for broadband services,
- The expansion of terrestrial TV to additional markets,
- Data center investments to support the Hosted and Managed Services strategy, and
- Success-based spending to sustain managedIP growth.

In addition, TDS Telecom will fund its share for projects approved under the American Recovery and Reinvestment Act of 2009 to increase broadband access in unserved areas. Under the Recovery Act, TDS Telecom will receive $105.1 million in federal grants and will provide $30.9 million of its own funds to complete 44 projects over the next 24 to 36 months.

Cash Flows and Investments

TDS and its subsidiaries had cash and cash equivalents totaling $368.1 million; short-term investments in the form of U.S. treasury securities, certificates of deposit and corporate notes aggregating $402.9 million; long-term investments in the form of U.S. treasury securities and corporate notes of $102.2 million; and borrowing capacity under their revolving credit facilities of $699.6 million as of December 31, 2010. Also, during 2010, TDS and its subsidiaries generated $1,121.9 million of cash flows from operating activities. Management believes that cash on hand, expected future cash flows from operating activities and sources of external financing provide substantial liquidity and financial flexibility and are sufficient to permit TDS and its subsidiaries to finance their contractual obligations and anticipated capital and operating expenditures for the foreseeable future.

In December 2010, TDS entered into a new $400 million revolving credit agreement and U.S. Cellular entered into a new $300 million revolving credit agreement with certain lenders and other parties. As a result, TDS' $400 million revolving credit agreement and U.S. Cellular's $300 million revolving credit agreement due to expire in June 2012 were terminated. TDS and U.S. Cellular entered into these new revolving credit agreements in order to obtain more favorable pricing, extended maturity and other terms and conditions.

In November 2010, TDS issued $225 million of 6.875% Senior Notes due 2059. In December 2010, the net proceeds of such offering were used to redeem $217.5 million of TDS' 7.6% Series A Notes due 2041, of which $500 million in aggregate principal amount were previously outstanding.

See "Financial Resources" and "Liquidity and Capital Resources" below for additional information related to cash flows, investments and revolving credit agreements.

Table of Contents

Telephone and Data Systems, Inc.

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

RESULTS OF OPERATIONS CONSOLIDATED

December 31, (Dollars in thousands, except per share amounts)	2010	Change	Percentage Change	2009	Change	Percentage Change	2008
Operating revenues							
U.S. Cellular	$ 4,177,681	$ (36,199)	(1)%	$ 4,213,880	$ (28,674)	(1)%	$ 4,242,554
TDS Telecom	795,842	5,990	1%	789,852	(34,430)	(4)%	824,282
All other(1)	13,306	(2,905)	(18)%	16,211	(8,341)	(34)%	24,552
Total operating revenues	4,986,829	(33,114)	(1)%	5,019,943	(71,445)	(1)%	5,091,388
Operating expenses							
U.S. Cellular	3,982,307	89,373	2%	3,892,934	(321,010)	(8)%	4,213,944
TDS Telecom	696,008	(359)		696,367	14,022	2%	682,345
All other(1)	18,522	(8,855)	(32)%	27,377	(38,975)	(59)%	66,352
Total operating expenses	4,696,837	80,159	2%	4,616,678	(345,963)	(7)%	4,962,641
Operating income (loss)							
U.S. Cellular	195,374	(125,572)	(39)%	320,946	292,336	>100%	28,610
TDS Telecom	99,834	6,349	7%	93,485	(48,452)	(34)%	141,937
All other(1)	(5,216)	5,950	53%	(11,166)	30,634	73%	(41,800)
Total operating income	289,992	(113,273)	(28)%	403,265	274,518	>100%	128,747
Other income and (expenses)							
Equity in earnings of unconsolidated entities	98,074	7,342	8%	90,732	920	1%	89,812
Interest and dividend income	10,508	(613)	(6)%	11,121	(28,010)	(72)%	39,131
Interest expense	(115,220)	10,989	9%	(126,209)	13,095	9%	(139,304)
Gain on investments and financial instruments			N/M		(31,595)	N/M	31,595
Other, net	(2,089)	(4,089)	>100%	2,000	(213)	(10)%	2,213
Total other income (expenses)	(8,727)	13,629	61%	(22,356)	(45,803)	>100%	23,447
Income before income taxes	281,265	(99,644)	(26)%	380,909	228,715	>100%	152,194
Income tax expense	92,283	(41,517)	(31)%	133,800	99,501	>100%	34,299
Net income	188,982	(58,127)	(24)%	247,109	129,214	>100%	117,895
Less: Net income attributable to noncontrolling interests, net of tax	(45,126)	13,018	22%	(58,144)	(28,745)	(98)%	(29,399)

Net income attributable to TDS shareholders	143,856	(45,109)	(24)%	188,965	100,469	>100%	88,496
Preferred dividend requirement	(50)	1	2%	(51)	1	2%	(52)
Net income available to common shareholders	$ 143,806	$ (45,108)	(24)%	$ 188,914	$ 100,470	>100%	$ 88,444
Basic earnings per share attributable to TDS shareholders	$ 1.37	$ (0.36)	(21)%	$ 1.73	$ 0.97	>100%	$ 0.76
Diluted earnings per share attributable to TDS shareholders	$ 1.36	$ (0.36)	(21)%	$ 1.72	$ 0.96	>100%	$ 0.76

(1) Consists of other corporate operations, intercompany eliminations between U.S. Cellular, TDS Telecom and corporate investments.

N/M Percentage change not meaningful

Table of Contents

Telephone and Data Systems, Inc.

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

Operating Revenues and Expenses

See "Results of Operations Wireless" and "Results of Operations Wireline" below for factors that affected Operating revenues and expenses.

Operating expenses included impairment losses on licenses held at U.S. Cellular in 2009 and 2008 and are discussed in "Results of Operations Wireless." An additional $27.7 million impairment loss on licenses was recognized at the TDS consolidated level in 2008 due to the fact that TDS accounted for U.S. Cellular's share repurchases as step acquisitions, allocating a portion of the repurchase value to TDS licenses, as required by GAAP in effect at that time.

The impacts of impairment losses related to licenses were as follows:

(Dollars in millions, except per share amounts)	2010	2009	2008
Net income attributable to TDS shareholders, excluding licenses impairments(1)	$ 143.9	$ 196.1	$ 297.7
Loss on impairment of intangible assets related to licenses		(14.0)	(414.4)
Income tax and noncontrolling interest impact of licenses impairment(1)		6.9	205.2
Impact of licenses impairments on Net income attributable to TDS shareholders(1)		(7.1)	(209.2)
Net income attributable to TDS shareholders	$ 143.9	$ 189.0	$ 88.5
Diluted earnings per share attributable to TDS shareholders, excluding licenses impairments(1)	$ 1.36	$ 1.79	$ 2.56
Impact of licenses impairments on Diluted earnings per share attributable to TDS shareholders(1)		(0.07)	(1.80)
Diluted earnings per share attributable to TDS shareholders	$ 1.36	$ 1.72	$ 0.76

(1) These amounts are non-GAAP financial measures. The purpose of presenting these measures is to provide information on the impact of losses on impairment related to licenses on results of operations. Such impairments are discrete, significant amounts that impact the comparability of the results of operations, and TDS believes it is useful to disclose these impacts. The income tax and noncontrolling interest impact is calculated by allocating the losses on impairment to the respective consolidated subsidiaries, and applying the income tax rate and noncontrolling interest percentages applicable to these respective subsidiaries.

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents TDS' share of net income from entities accounted for by the equity method. TDS generally follows the equity method of accounting for unconsolidated entities in which its ownership interest is less than or equal to 50% but equals or exceeds 20% for corporations and 3% for partnerships and limited liability companies.

TDS' investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed $64.8 million, $64.7 million and $66.1 million to Equity in earnings of unconsolidated entities in 2010, 2009 and 2008, respectively. TDS received cash distributions from the LA Partnership of $66.0 million in each of 2010, 2009 and 2008.

Interest and dividend income

Interest income decreased $0.5 million in 2010 compared to 2009 and $18.0 million in 2009 compared to 2008. The average investment balances and weighted average return on investments remained relatively

8

Telephone and Data Systems, Inc.

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

flat in 2010 compared to 2009. Lower average investment balances and lower weighted average return on investments in 2009 compared to 2008 contributed to that interest income decline. TDS' Cash and cash equivalents and Short-term investments are primarily held in money market funds, certificates of deposit, and government-backed securities.

Dividend income decreased by $0.1 million in 2010 and by $10.0 million in 2009 primarily due to a decrease in dividends from Deutsche Telekom Ordinary Shares. All of these shares were disposed of by 2008.

Interest expense

The decrease in interest expense in 2010 compared to 2009 was primarily attributable to the redemption of U.S. Cellular's 8.75% senior notes in December, 2009. The decrease in interest expense in 2009 compared to 2008 was primarily attributable to $12.0 million of interest incurred on variable prepaid forward contracts in 2008. Such forward contracts were settled in 2008.

Gain on investments and financial instruments

In 2008, Gain on investments and financial instruments consisted primarily of a $31.7 million gain realized upon the disposition of Rural Cellular Corporation Common Shares.

See Note 3 Fair Value Measurements in the Notes to Consolidated Financial Statements for more information on the gains and losses on investments and financial instruments.

Income tax expense

The effective tax rates on Income before income taxes and extraordinary item ("pre-tax income") for 2010, 2009 and 2008 were 32.8%, 35.1% and 22.5%, respectively. The following significant discrete and other items impacted income tax expense for these years:

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

2009 Includes a tax benefit of $8.4 million resulting from a state tax law change.

2008 Includes tax benefits of $14.5 million and $7.4 million recorded upon the final disposition of the Deutsche Telekom Ordinary Shares and from a change in filing positions in certain states, respectively. The percentage impact of these items was magnified due to the 2008 Loss on impairment of intangible assets of $414.4 million, which decreased pre-tax income.

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

Net income attributable to noncontrolling interests, net of tax

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

Year Ended December 31, (Dollars in thousands)	**2010**	**2009**	**2008**
Net income attributable to noncontrolling interest, net of tax			
U.S. Cellular			
Noncontrolling public shareholders'	$ (23,712)	$ (38,471)	$ (6,656)

Noncontrolling shareholders' or partners'		(21,414)		(19,673)		(22,743)
	$	(45,126)	$	(58,144)	$	(29,399)

Table of Contents

Telephone and Data Systems, Inc.

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

RESULTS OF OPERATIONS WIRELESS

TDS provides wireless telephone service through U.S. Cellular, an 83%-owned subsidiary. U.S. Cellular owns, manages and invests in wireless markets throughout the United States.

Following is a table of summarized operating data for U.S. Cellular's consolidated operations.

As of December 31,(1)	2010	2009	2008
Total market population of consolidated operating markets(2)	46,546,000	46,306,000	46,009,000
Customers(3)	6,072,000	6,141,000	6,196,000
Market penetration(2)	13.0%	13.3%	13.5%
Total full-time equivalent employees(4)	8,934	8,867	8,712
Cell sites in service	7,645	7,279	6,877
Smartphone penetration(9)(10)	16.7%	7.5%	3.7%

For the Year Ended December 31,(5)	2010	2009	2008
Net retail customer additions (losses)(6)	(15,000)	37,000	149,000
Net customer additions (losses)(6)	(69,000)	(55,000)	91,000
Average monthly service revenue per customer(7)	$ 53.27	$ 52.99	$ 53.22
Postpaid churn rate(8)	1.5%	1.6%	1.5%
Smartphones sold as a percent of total devices sold(9)	24.6%	10.2%	6.0%

(1) Amounts include results for U.S. Cellular's consolidated operating markets as of December 31.

(2) Calculated using 2009, 2008 and 2007 Claritas population estimates for 2010, 2009 and 2008, respectively. "Total market population of consolidated operating markets" is used only for the purposes of calculating market penetration of consolidated operating markets, which is calculated by dividing customers by the total market population (without duplication of population in overlapping markets).

The total market population and penetration measures for consolidated operating markets apply to markets in which U.S. Cellular provides wireless service to customers. For comparison purposes, total market population and penetration related to all consolidated markets in which U.S. Cellular owns an interest were 90,468,000 and 6.7%, 89,712,000 and 6.8%, and 83,014,000 and 7.5% as of December 31, 2010, 2009 and 2008, respectively.

(3) U.S. Cellular's customer base consists of the following types of customers:

	2010	2009	2008
Customers on postpaid service plans in which the end user is a customer of U.S. Cellular ("postpaid customers")	5,416,000	5,482,000	5,420,000
Customers on prepaid service plans in which the end user is a customer of U.S. Cellular ("prepaid customers")	313,000	262,000	287,000
Total retail customers	5,729,000	5,744,000	5,707,000
End user customers acquired through U.S. Cellular's agreements with third parties ("reseller customers")	343,000	397,000	489,000

Total customers	6,072,000	6,141,000	6,196,000

(4) Part-time employees are calculated at 70% of full-time employees.

(5) Amounts include results for U.S. Cellular's consolidated operating markets for the period January 1 through December 31; operating markets acquired during a particular period are included as of the acquisition date.

Table of Contents

Telephone and Data Systems, Inc.

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

(6)
"Net retail customer additions (losses)" represents the number of net customers added or lost to U.S. Cellular's retail customer base through its marketing distribution channels; this measure excludes activity related to reseller customers and customers transferred through acquisitions, divestitures or exchanges. "Net customer additions (losses)" represents the number of net customers added to (deducted from) U.S. Cellular's overall customer base through its marketing distribution channels; this measure includes activity related to reseller customers but excludes activity related to customers transferred through acquisitions, divestitures or exchanges.

(7)
Management uses these measurements to assess the amount of revenue that U.S. Cellular generates each month on a per customer basis. Average monthly revenue per customer is calculated as follows:

	2010	2009	2008
Service revenues per Consolidated Statement of Operations (000s)	$ 3,913,001	$ 3,927,128	$ 3,939,695
Divided by total average customers during period (000s)*	6,121	6,176	6,169
Divided by number of months in each period	12	12	12
Average monthly service revenue per customer	$ 53.27	$ 52.99	$ 53.22

*
"Average customers during period" is calculated by adding the number of total customers at the beginning of the first month of the period and at the end of each month in the period and dividing by the number of months in the period plus one. Acquired and divested customers are included in the calculation on a prorated basis for the amount of time U.S. Cellular included such customers during each period.

(8)
Postpaid churn rate represents the percentage of the postpaid customer base that disconnects service each month. This amount represents the average postpaid churn rate for the twelve months of the respective year.

(9)
Smartphones represent wireless devices which run on a Blackberry®, Windows Mobile, or Android operating system.

(10)
Smartphone penetration is calculated by dividing postpaid customers on smartphone service plans by total postpaid customers.

Table of Contents

Telephone and Data Systems, Inc.

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

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2010	Increase/(Decrease)	Percentage Change	2009	Increase/(Decrease)	Percentage Change	2008
Retail service	$ 3,459,546	$ (18,662)	(1)%	$ 3,478,208	$ 39,667	1%	$ 3,438,541
Inbound roaming	253,290	515		252,775	(76,421)	(23)%	329,196
Other	200,165	4,020	2%	196,145	24,187	14%	171,958
Service revenues	3,913,001	(14,127)		3,927,128	(12,567)		3,939,695
Equipment sales	264,680	(22,072)	(8)%	286,752	(16,107)	(5)%	302,859
Total operating revenues	4,177,681	(36,199)	(1)%	4,213,880	(28,674)	(1)%	4,242,554
System operations (excluding Depreciation, amortization and accretion reported below)	854,931	52,077	6%	802,854	19,788	3%	783,066
Cost of equipment sold	742,981	(12)		742,993	(413)		743,406
Selling, general and administrative	1,796,624	49,220	3%	1,747,404	40,819	2%	1,706,585
Depreciation, amortization and accretion	577,054	7,540	1%	569,514	(7,307)	(1)%	576,821
Loss on impairment of intangible assets		(14,000)	(100)%	14,000	(372,653)	(96)%	386,653
Loss on asset disposals, net	10,717	(5,452)	(34)%	16,169	(1,244)	(7)%	17,413