

TELEPHONE & DATA SYSTEMS INC /DE/  
Form 10-Q  
November 04, 2010

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

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2010**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**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 of)

(I.R.S. Employer Identification No.)

incorporation or organization)

**30 North LaSalle Street, Chicago, Illinois 60602**

(Address of principal executive offices) (Zip Code)

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

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  No

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  No

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at September 30, 2010
Common Shares, \$.01 par value	49,872,640 Shares
Special Common Shares, \$.01 par value	48,029,633 Shares
Series A Common Shares, \$.01 par value	6,507,984 Shares



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**For the Quarterly Period Ended September 30, 2010**

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Table of Contents**Part I. Financial Information****Item 1. Financial Statements****Telephone and Data Systems, Inc.****Consolidated Statement of Operations****(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
<b>(Dollars and shares in thousands, except per share amounts)</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Operating revenues</b>	\$ 1,266,416	\$ 1,257,737	\$ 3,721,070	\$ 3,758,033
<b>Operating expenses</b>				
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	487,311	477,269	1,384,880	1,375,683
Selling, general and administrative Depreciation, amortization and accretion	502,594	506,965	1,485,010	1,441,904
Loss on asset disposals, net	190,972	190,713	570,619	557,218
	2,378	3,271	9,023	10,462
Total operating expenses	1,183,255	1,178,218	3,449,532	3,385,267
<b>Operating income</b>	83,161	79,519	271,538	372,766
<b>Investment and other income (expense)</b>				
Equity in earnings of unconsolidated entities	24,147	23,334	75,047	67,034
Interest and dividend income	2,785	3,461	7,900	8,435
Interest expense	(28,297)	(30,854)	(86,520)	(93,898)
Other, net	(438)	1,030	(2,557)	1,504
Total investment and other income (expense)	(1,803)	(3,029)	(6,130)	(16,925)

<b>Income before income taxes</b>	81,358	76,490	265,408	355,841
Income tax expense	28,775	28,331	98,167	125,412
<b>Net income</b>	52,583	48,159	167,241	230,429
Less: Net income attributable to noncontrolling interests, net of tax	(11,958)	(11,384)	(37,915)	(53,193)
<b>Net income attributable to TDS shareholders</b>	40,625	36,775	129,326	177,236
Preferred dividend requirement	(12)	(13)	(37)	(38)
<b>Net income available to common shareholders</b>	\$ 40,613	\$ 36,762	\$ 129,289	\$ 177,198
<b>Basic weighted average shares outstanding</b>	104,881	108,289	105,443	110,408
<b>Basic earnings per share attributable to TDS shareholders</b>	\$ 0.39	\$ 0.34	\$ 1.23	\$ 1.60
<b>Diluted weighted average shares outstanding</b>	105,298	108,565	105,800	110,633
<b>Diluted earnings per share attributable to TDS shareholders</b>	\$ 0.38	\$ 0.34	\$ 1.22	\$ 1.60
<b>Dividends per share</b>	\$ 0.1125	\$ 0.1075	\$ 0.3375	\$ 0.3225

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**Telephone and Data Systems, Inc.****Consolidated Statement of Cash Flows****(Unaudited)**

(Dollars in thousands)	Nine Months Ended	
	2010	September 30, 2009
<b>Cash flows from operating activities</b>		
Net income	\$ 167,241	\$ 230,429
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities		
Depreciation, amortization and accretion	570,619	557,218
Bad debts expense	61,087	78,941
Stock-based compensation expense	26,055	24,523
Deferred income taxes, net	55,102	29,157
Equity in earnings of unconsolidated entities	(75,047)	(67,034)
Distributions from unconsolidated entities	59,519	51,668
Loss on asset disposals, net	9,023	10,462
Other operating activities	4,645	2,114
Changes in assets and liabilities from operations		
Accounts receivable	(48,891)	(107,254)
Inventory	32,571	(3,595)
Accounts payable	(49,034)	(29,401)
Customer deposits and deferred revenues	2,363	(4,936)
Accrued taxes	(42,843)	88,098
Accrued interest	9,343	9,893
Other assets and liabilities	(16,973)	(70,332)
	764,780	799,951
<b>Cash flows from investing activities</b>		
Additions to property, plant and equipment	(486,138)	(450,594)
Cash paid for acquisitions and licenses	(28,264)	(15,242)



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Cash paid for investments	(433,750)	(109,055)
Cash received for investments	40,765	
Other investing activities	1,681	3,335
	(905,706)	(571,556)
<b>Cash flows from financing activities</b>		
Repayment of long-term debt	(2,182)	(2,507)
TDS Common Shares and Special Common Shares reissued for benefit plans, net of tax payments	1,183	1,296
U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	738	(119)
Repurchase of TDS Common and Special Common Shares	(50,543)	(152,918)
Repurchase of U.S. Cellular Common Shares	(40,520)	(24,283)
Dividends paid	(35,502)	(35,389)
Payment of debt issuance costs		(10,074)
Distributions to noncontrolling interests	(5,828)	(4,962)
Other financing activities	(7,404)	1,411
	(140,058)	(227,545)
<b>Net increase (decrease) in cash and cash equivalents</b>	(280,984)	850
<b>Cash and cash equivalents</b>		
Beginning of period	670,992	777,309
End of period	\$ 390,008	\$ 778,159

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**Telephone and Data Systems, Inc.****Consolidated Balance Sheet Assets****(Unaudited)**

<b>(Dollars in thousands)</b>	<b>September 30,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 390,008	\$ 670,992
Short-term investments	389,052	113,275
Accounts receivable		
Due from customers and agents, less allowances of \$28,462 and \$30,422, respectively	360,286	384,470
Other, less allowances of \$7,148 and \$7,201, respectively	144,155	130,973
Inventory	124,417	156,987
Net deferred income tax asset	29,948	29,874
Prepaid expenses	93,406	94,336
Prepaid income taxes	50,865	3,718
Other current assets	60,802	63,046
	1,642,939	1,647,671
<b>Investments</b>		
Licenses	1,453,526	1,443,025
Goodwill	718,635	707,840
Other intangible assets, net of accumulated amortization of \$117,510 and \$108,944, respectively	25,924	26,589
Investments in unconsolidated entities	214,114	203,799
Long-term investments	121,441	
Other investments	9,123	9,785
	2,542,763	2,391,038
<b>Property, plant and equipment</b>		
In service and under construction	9,144,869	8,760,327
Less: Accumulated depreciation	5,699,710	5,252,482
	3,445,159	3,507,845
<b>Other assets and deferred charges</b>	62,970	65,759
<b>Total assets</b>	\$ 7,693,831	\$ 7,612,313

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**Telephone and Data Systems, Inc.****Consolidated Balance Sheet Liabilities and Equity****(Unaudited)**

<b>(Dollars and shares in thousands)</b>	<b>September 30,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 1,804	\$ 2,509
Accounts payable	299,039	347,348
Customer deposits and deferred revenues	167,659	164,451
Accrued interest	21,387	12,227
Accrued taxes	81,563	62,568
Accrued compensation	87,932	93,524
Other current liabilities	98,554	117,081
	<b>757,938</b>	<b>799,708</b>
<b>Deferred liabilities and credits</b>		
Net deferred income tax liability	566,268	517,762
Other deferred liabilities and credits	390,941	373,862
<b>Long-term debt</b>	<b>1,492,022</b>	<b>1,492,908</b>
<b>Commitments and contingencies</b>		
<b>Noncontrolling interests with redemption features</b>	<b>791</b>	<b>727</b>
<b>Equity</b>		
TDS shareholders' equity		
Series A Common, Special Common and Common Shares		
Authorized 290,000 shares (25,000 Series A Common, 165,000 Special Common and 100,000 Common Shares)		
Issued 127,038 shares (6,508 Series A Common, 63,442 Special Common and 57,088 Common Shares) and 127,016		

shares (6,492 Series A Common, 63,442 Special Common and 57,082 Common Shares), respectively		
Outstanding 104,410 shares (6,508 Series A Common, 48,029 Special Common and 49,873 Common Shares) and 106,022 shares (6,492 Series A Common, 49,725 Special Common and 49,805 Common Shares), respectively		
Par Value (\$.01 per share) (\$65 Series A Common, \$634 Special Common and \$571 Common Shares)	1,270	1,270
Capital in excess of par value	2,101,882	2,088,807
Special Common and Common Treasury shares at cost:		
Treasury shares 22,628 (15,413 Special Common and 7,215 Common Shares) and 20,994 (13,717 Special Common and 7,277 Common Shares), respectively	(724,533)	(681,649)
Accumulated other comprehensive loss	(3,395)	(2,710)
Retained earnings	2,449,060	2,358,580
Total TDS shareholders' equity	3,824,284	3,764,298
Preferred shares	830	832
Noncontrolling interests	660,757	662,216
Total equity	4,485,871	4,427,346
<b>Total liabilities and equity</b>	<b>\$ 7,693,831</b>	<b>\$ 7,612,313</b>

The accompanying notes are an integral part of these consolidated financial statements.

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**Telephone and Data Systems, Inc.**  
**Consolidated Statement of Changes in Equity**  
**(Unaudited)**

**TDS Shareholders**

(Dollars in thousands)	Series A		Special Common			Accumulated Other Comprehensive Income		Total TDS		Noncontrolling Interests	Total Equity
	Common, Special Common	Capital in Excess of Par Value	Treasury Shares	and	Other	Retained Earnings	Shareholder Equity	Preferred Shares			
<b>December 31, 2009</b>	<b>\$ 1,270</b>	<b>\$ 2,088,807</b>	<b>\$ (681,649)</b>		<b>\$ (2,710)</b>	<b>\$ 2,358,580</b>	<b>\$ 3,764,298</b>	<b>\$ 832</b>	<b>\$ 662,216</b>		<b>\$ 4,427,346</b>
Add (Deduct)											
Net income attributable to TDS shareholders						129,326	129,326		37,886		129,326
Net income attributable to noncontrolling interests classified as equity											37,886
Net unrealized gain (loss) on equity investments					84		84				84
Changes related to retirement plan					(769)		(769)				(769)
Common, Special Common and Series A Common Shares dividends						(35,465)	(35,465)				(35,465)
Preferred dividend requirement						(37)	(37)				(37)
Repurchase of shares			(50,543)		(1)	(50,544)	(2)				(50,546)
Dividend reinvestment			4,454		(1,323)	3,131					3,131

plan Incentive and compensation plans	433	3,205	(2,020)	1,618		1,618			
Adjust investment in subsidiaries for repurchases, issuances, other compensation plans and noncontrolling interest purchases	98			98	(33,517)	(33,419)			
Stock-based compensation awards (1)	12,516			12,516		12,516			
Tax windfall (shortfall) from stock awards (2)	28			28		28			
Distributions to noncontrolling interests					(5,828)	(5,828)			
<b>September 30, 2010</b>	<b>\$ 1,270</b>	<b>\$ 2,101,882</b>	<b>\$ (724,533)</b>	<b>\$ (3,395)</b>	<b>\$ 2,449,060</b>	<b>\$ 3,824,284</b>	<b>\$ 830</b>	<b>\$ 660,757</b>	<b>\$ 4,485,871</b>

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**Telephone and Data Systems, Inc.**  
**Consolidated Statement of Changes in Equity**  
**(Unaudited)**

**TDS Shareholders**

(Dollars in thousands)	Series A Common, Special Common and Capital in Excess of Par Value	Special Common and Treasury Shares	Accumulated and Other Comprehensive Income (Loss)	Retained Earnings	Total TDS Shareholder Equity	Preferred Shares	Noncontrolling Interests	Total Equity	
<b>December 31, 2008</b>	<b>\$ 1,270</b>	<b>\$ 2,066,597</b>	<b>\$ (513,108)</b>	<b>\$ (13,391)</b>	<b>\$ 2,221,469</b>	<b>\$ 3,762,837</b>	<b>\$ 852</b>	<b>\$ 647,915</b>	<b>\$ 4,411,604</b>
Add (Deduct)									
Net income attributable to TDS shareholders				177,236	177,236			177,236	
Net income attributable to noncontrolling interests classified as equity							53,073	53,073	
Net unrealized gain (loss) on equity investments			(302)		(302)			(302)	
Changes related to retirement plan			742		742			742	
Common, Special Common and Series A Common Shares dividends				(35,351)	(35,351)			(35,351)	
Preferred dividend requirement				(38)	(38)			(38)	
Repurchase of shares			(159,993)		(159,993)	(7)		(160,000)	
Dividend reinvestment	(13)	731		444	1,162			1,162	



plan Incentive and compensation plans	(45)	3,338	(1,383)	1,910		1,910			
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	6,564			6,564	(18,422)	(11,858)			
Stock-based compensation awards (1)	11,523			11,523		11,523			
Tax windfall (shortfall) from stock awards (2)	(145)			(145)		(145)			
Distributions to noncontrolling interests					(4,962)	(4,962)			
<b>September 30, 2009</b>	<b>\$ 1,270</b>	<b>\$ 2,084,481</b>	<b>\$ (669,032)</b>	<b>\$ (12,951)</b>	<b>\$ 2,362,377</b>	<b>\$ 3,766,145</b>	<b>\$ 845</b>	<b>\$ 677,604</b>	<b>\$ 4,444,594</b>

(1) Reflects TDS Corporate and TDS Telecom's current year stock-based compensation awards impact on Capital in excess of par value. U.S. Cellular's amounts are included in Adjust investment in subsidiaries for repurchases, issuances and other compensation plans.

(2) Reflects tax windfalls/(shortfalls) associated with the exercise of options and the vesting of restricted stock awards of TDS Common Shares and TDS Special Common Shares. U.S. Cellular's tax windfalls/(shortfalls) associated with the exercise of options and vesting of restricted stock awards of U.S. Cellular are included in Adjust investment in subsidiaries for repurchases, issuances, and other compensation plans.

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**Telephone and Data Systems, Inc.****Consolidated Statement of Comprehensive Income****(Unaudited)**

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
<b>Net income</b>	\$ 52,583	\$ 48,159	\$ 167,241	\$ 230,429
<b>Net change in accumulated other comprehensive income</b>				
Net unrealized gain (loss) on equity investments		199	84	(302)
Changes related to retirement plan	(256)	159	(769)	742
<b>Comprehensive income</b>	<b>52,327</b>	<b>48,517</b>	<b>166,556</b>	<b>230,869</b>
<b>Less: Comprehensive income attributable to noncontrolling interests</b>	<b>(11,958)</b>	<b>(11,384)</b>	<b>(37,915)</b>	<b>(53,193)</b>
<b>Comprehensive income attributable to TDS shareholders</b>	<b>\$ 40,369</b>	<b>\$ 37,133</b>	<b>\$ 128,641</b>	<b>\$ 177,676</b>

The accompanying notes are an integral part of these consolidated financial statements.

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**Telephone and Data Systems, Inc.**

**Notes to Consolidated Financial Statements**

**1. Basis of Presentation**

The accounting policies of Telephone and Data Systems, Inc. ( TDS ) conform to accounting principles generally accepted in the United States of America ( GAAP ) as set forth in the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ). The consolidated financial statements include the accounts of TDS and its majority-owned subsidiaries, including TDS 83%-owned wireless telephone subsidiary, United States Cellular Corporation ( U.S. Cellular ), TDS 100%-owned wireline telephone subsidiary, TDS Telecommunications Corporation ( TDS Telecom ) and TDS majority-owned printing and distribution company, Suttle-Straus, Inc. In addition, the consolidated financial statements include certain entities in which TDS has a variable interest that require consolidation under GAAP. All material intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the 2010 presentation.

The consolidated financial statements included herein have been prepared by TDS, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, TDS believes that the disclosures included herein are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in TDS Current Report on Form 8-K (Items 8.01 and 9.01) filed with the SEC on August 5, 2010, which should be read in conjunction with TDS Annual Report on Form 10-K ( Form 10-K ) for the year ended December 31, 2009.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items and adjustments to prior periods as described in Note 2 Revision of Prior Period Amounts) necessary to present fairly the financial position as of September 30, 2010, December 31, 2009, and September 30, 2009 (as included in Note 2), the results of operations and comprehensive income for the three and nine months ended September 30, 2010 and 2009, and cash flows and changes in equity for the nine months ended September 30, 2010 and 2009. The results of operations and comprehensive income for the three and nine months ended, and cash flows

and changes in equity for the nine months ended September 30, 2010 are not necessarily indicative of the results expected for the full year.

## 2. Revision of Prior Period Amounts

In preparing its financial statements for the three months ended March 31, 2010, TDS discovered certain errors related to accounting for operating revenues and sales tax liabilities. The quantification of these errors was subsequently refined during the second quarter of 2010. These errors resulted in the overstatement of operating revenues and understatement of sales tax liabilities for the years ended December 31, 2009, 2008, 2007, and the three months ended March 31, 2010. In addition to recording these adjustments, TDS recorded other adjustments to prior-year amounts to correct other immaterial items. In accordance with *SEC Staff Accounting Bulletin Nos. 99 and 108* ( SAB 99 and SAB 108 ), TDS evaluated these errors and determined that they were immaterial to each of the reporting periods affected and, therefore, amendment of previously filed reports was not required. However, if the adjustments to correct the cumulative errors had been recorded in the first or second quarter of 2010, TDS believes the impact would have been significant to those respective periods and would impact comparisons to prior periods. As permitted by SAB 108, TDS revised in the current filing its comparative consolidated financial statements for these immaterial amounts. In addition, on August 5, 2010, TDS filed a Current Report on Form 8-K (Items 8.01 and 9.01) with the SEC to revise financial statements and other financial information previously included in its Annual Report on Form 10-K for the year ended December 31, 2009 and Quarterly Report on Form 10-Q for the period ended March 31, 2010. Such Form 8-K contains revisions to the December 31, 2009 Consolidated Balance Sheet, originally filed on February 25, 2010 in TDS Annual Report on Form 10-K. Also, in accordance with SAB 108, the Consolidated Balance Sheet, the Consolidated Statement of Operations and the Consolidated Statement of Cash Flows for the following comparative periods have been revised as follows:

Consolidated Balance Sheet September 30, 2009

(Dollars in thousands)	As previously		
	reported (1)	Adjustment	Revised
Accounts receivable - Due from customers	\$ 384,213	\$ 3,817	\$ 388,030
Prepaid expenses	95,677	8,413	104,090
<b>Total current assets</b>	<b>1,778,024</b>	<b>12,230</b>	<b>1,790,254</b>
<b>Total assets</b>	<b>7,733,175</b>	<b>12,230</b>	<b>7,745,405</b>
Customer deposits and deferred revenues	170,493	(2,241)	168,252
Accrued taxes	66,661	23,193	89,854
<b>Total current liabilities</b>	<b>773,824</b>	<b>20,952</b>	<b>794,776</b>
Other deferred liabilities and credits	384,032	1,314	385,346
<b>Total deferred liabilities and credits</b>	<b>883,034</b>	<b>1,314</b>	<b>884,348</b>
Retained earnings	2,370,595	(8,218)	2,362,377
<b>Total TDS shareholders equity</b>	<b>3,774,363</b>	<b>(8,218)</b>	<b>3,766,145</b>

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Noncontrolling interests	679,422	(1,818)	677,604
<b>Total equity</b>	<b>4,454,630</b>	<b>(10,036)</b>	<b>4,444,594</b>
<b>Total liabilities and equity</b>	<b>7,733,175</b>	<b>12,230</b>	<b>7,745,405</b>

Consolidated Statement of Operations Three Months Ended September 30, 2009

(Dollars in thousands)	As previously reported (1)	Adjustment	Revised
<b>Operating revenues</b>	\$ 1,258,742	\$ (1,005)	\$ 1,257,737
Cost of services and products (Excluding Depreciation, amortization and accretion)	477,116	153	477,269
Selling, general and administrative expenses	507,159	(194)	506,965
Depreciation, amortization and accretion	192,247	(1,534)	190,713
Loss on asset disposals, net	4,557	(1,286)	3,271
<b>Total operating expenses</b>	<b>1,181,079</b>	<b>(2,861)</b>	<b>1,178,218</b>
Operating income	77,663	1,856	79,519
Interest expense	(30,430)	(424)	(30,854)
<b>Total investment and other income (expense)</b>	<b>(2,605)</b>	<b>(424)</b>	<b>(3,029)</b>
<b>Income before income taxes</b>	<b>75,058</b>	<b>1,432</b>	<b>76,490</b>
Income tax expense	27,793	538	28,331
<b>Net income</b>	<b>47,265</b>	<b>894</b>	<b>48,159</b>
<b>Net income attributable to noncontrolling interests, net of tax</b>	<b>(11,620)</b>	<b>236</b>	<b>(11,384)</b>
<b>Net income attributable to TDS shareholders</b>	<b>35,645</b>	<b>1,130</b>	<b>36,775</b>
<b>Net income available to common shareholders</b>	<b>35,632</b>	<b>1,130</b>	<b>36,762</b>
<b>Basic earnings per share attributable to TDS shareholders</b>	<b>0.33</b>	<b>0.01</b>	<b>0.34</b>
<b>Diluted earnings per share attributable to TDS shareholders</b>	<b>0.33</b>	<b>0.01</b>	<b>0.34</b>

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## Consolidated Statement of Operations Nine Months Ended September 30, 2009

(Dollars in thousands)	As previously reported (1)	Adjustment	Revised
<b>Operating revenues</b>	\$ 3,757,865	\$ 168	\$ 3,758,033
Cost of services and products (Excluding Depreciation, amortization and accretion)	1,375,642	41	1,375,683
Selling, general and administrative expenses	1,445,920	(4,016)	1,441,904
Depreciation, amortization and accretion	558,362	(1,144)	557,218
Loss on asset disposals, net	9,469	993	10,462
<b>Total operating expenses</b>	3,389,393	(4,126)	3,385,267
Operating income	368,472	4,294	372,766
Interest expense	(92,780)	(1,118)	(93,898)
<b>Total investment and other income (expense)</b>	(15,807)	(1,118)	(16,925)
<b>Income before income taxes</b>	352,665	3,176	355,841
Income tax expense	121,467	3,945	125,412
<b>Net income</b>	231,198	(769)	230,429
<b>Net income attributable to noncontrolling interests, net of tax</b>	(53,814)	621	(53,193)
<b>Net income attributable to TDS shareholders</b>	177,384	(148)	177,236
<b>Net income available to common shareholders</b>	177,346	(148)	177,198
<b>Basic earnings per share attributable to TDS shareholders</b>	1.61	(0.01)	1.60
<b>Diluted earnings per share attributable to TDS shareholders</b>	1.60		1.60

## Consolidated Statement of Cash Flows Nine Months Ended September 30, 2009

(Dollars in thousands)	As previously reported (1)	Adjustment	Revised
Net income	\$ 231,198	\$ (769)	\$ 230,429
Depreciation, amortization and accretion	558,362	(1,144)	557,218
Deferred income taxes, net	25,935	3,222	29,157
Loss on asset disposals, net	9,469	993	10,462

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Change in accounts receivable	(102,137)	(5,117)	(107,254)
Change in customer deposits and deferred revenues	(3,609)	(1,327)	(4,936)
Change in accrued taxes	82,267	5,831	88,098
Change in other assets and liabilities	(68,643)	(1,689)	(70,332)
<b>Cash flows from operating activities</b>	799,951		799,951

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(1) In Quarterly Report on Form 10-Q for the period ended September 30, 2009 filed on November 5, 2009.

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**3. Summary of Significant Accounting Policies**

Amounts Collected from Customers and Remitted to Governmental Authorities

If a tax is assessed upon the customer and TDS merely acts as an agent in collecting the tax on behalf of the governmental authority imposing such tax, the amounts collected from customers and remitted to governmental authorities are recorded net in Accrued taxes in the Consolidated Balance Sheet. If a tax is assessed upon TDS but billed to customers to recover it, the amounts billed to customers are recorded in Operating revenues and the amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded in Operating revenues that were billed to customers and remitted to governmental authorities totaled \$38.1 million and \$118.0 million for the three months ended and nine months ended September 30, 2010, respectively, and \$34.3 million and \$91.3 million for the three months ended and nine months ended September 30, 2009, respectively. These revenues increased primarily due to an increase in the Universal Service Fund contribution rates established by the Federal Communications Commission ( FCC ).

Implementation of Revised Variable Interest Entity Accounting

TDS holds interests in certain variable interest entities ( VIEs ) as such term is defined by GAAP. The primary beneficiary of a VIE, as defined by GAAP, is required to consolidate the VIE in its financial statements. Prior to January 1, 2010, the primary beneficiary of a VIE was the entity that recognized a majority of a VIE 's expected gains or losses, as determined based on a quantitative model. Effective January 1, 2010, new provisions under GAAP related to accounting for VIEs provide for a more qualitative assessment in determining the primary beneficiary of a VIE.

The revised consolidation guidance related to VIEs effective January 1, 2010 did not change TDS 's consolidated reporting entities. See Note 11 Variable Interest Entities (VIEs) for details on consolidated VIEs.

Recent Accounting Pronouncements



In October 2009, the FASB issued Accounting Standards Update No. 2009-13, *Multiple Deliverable Revenue Arrangements a consensus of FASB Emerging Issues Task Force* ( ASU 2009-13 ). ASU 2009-13 provides for less restrictive separation criteria that must be met for a deliverable to be considered a separate unit of accounting. Additionally, under this Standard, there is a hierarchy for determining the selling price of a unit of accounting and consideration must be allocated using a relative-selling price method. TDS is required to adopt the provisions of ASU 2009-13 on January 1, 2011; however, as permitted, TDS elected to early adopt the provisions on October 1, 2010. Such early adoption required TDS to retrospectively apply ASU 2009-13 effective January 1, 2010, the beginning of TDS current fiscal year. This retrospective application of ASU 2009-13 will have no impact on TDS reported amounts in the first nine months of 2010. TDS made this election in connection with the introduction of certain new service offerings in the fourth quarter of 2010. These new service offerings may include a combination of the following elements which are considered separate units of accounting under ASU 2009-13: wireless services (voice, messaging and data), wireless handsets, a phone replacement program, and loyalty reward points that may be redeemed by customers for wireless products and services in future periods. In accordance with ASU 2009-13, TDS will be required to defer the recognition of revenue related to amounts billed to customers that are attributed to loyalty rewards points until such points are redeemed or expire; thus ASU 2009-13 will impact the timing of recognition of revenue attributable to loyalty reward points. Except as

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described in the preceding sentence, adoption of ASU 2009-13 is not expected to have a significant impact on TDS financial position or results of operations.

In October 2009, the FASB issued Accounting Standards Update No. 2009-14, *Certain Revenue Arrangements that include Software Elements a consensus of the FASB Emerging Issues Task Force* ( ASU 2009-14 ). ASU 2009-14 amends accounting and reporting guidance for revenue arrangements involving both tangible products and software that is "more than incidental to the tangible product as a whole. ASU 2009-14 will be effective for TDS on January 1, 2011; however, early adoption is permitted. TDS does not anticipate that this pronouncement will have a significant impact on its financial position or results of operations.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements* ( ASU 2010-06 ). ASU 2010-06 requires new disclosures regarding transfers in and out of Levels 1 and 2 and activity in Level 3 fair value measurements. It also clarifies existing disclosure requirements regarding the level of disaggregation in certain disclosures, inputs, and valuation techniques used in FASB ASC 820, *Fair Value Measurements and Disclosures*. TDS adopted all of the requirements of this update on January 1, 2010, its effective date, except for the new requirement regarding activity in Level 3 fair value measurements which has a later effective date under the provisions of ASU 2010-06, and will become effective on January 1, 2011. Adoption of this pronouncement has not had, and is not expected to have, a significant impact on TDS fair value disclosures.

#### 4. Fair Value Measurements

As of September 30, 2010 and December 31, 2009, TDS did not have any financial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP. However, TDS has applied the provisions of fair value accounting for purposes of computing the fair value of financial instruments for disclosure purposes as displayed below.

	September 30,		December 31,	
	2010		2009	
	Book Value	Fair Value	Book Value	Fair Value
<b>(Dollars in thousands)</b>				
Cash and cash equivalents	\$ 390,008	\$ 390,008	\$ 670,992	\$ 670,992
Short-term investments (1)(2)				
Certificates of deposit	97,760	97,760	113,275	113,275

Government-backed securities (3)	291,292	291,292		
Long-term investments (1)(4)				
Government-backed securities (3)	121,441	121,916		
Long-term debt (5)	1,487,588	1,483,672	1,488,196	1,461,976

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- (1) Designated as held-to-maturity investments and are recorded at amortized cost on the Consolidated Balance Sheet.
- (2) Maturities are less than twelve months from the respective balance sheet dates.
- (3) Includes U.S. treasuries and corporate notes guaranteed under the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program.
- (4) Maturities range between 13 and 27 months from the balance sheet date.
- (5) Excludes capital lease obligations and current portion of Long-term debt.

The fair values of Cash and cash equivalents and Short-term investments approximate their book values due to the short-term nature of these financial instruments. The fair values of Long-term investments were estimated using quoted market prices for the individual issuances. The fair value of Long-term debt, excluding capital lease obligations and current portion of Long-term debt, was estimated using market prices for TDS' 7.6% Series A notes and 6.625% senior notes, U.S. Cellular's 7.5% senior notes, and discounted cash flow analyses for the remaining debt, principally U.S. Cellular's 6.7% senior notes.

As of September 30, 2010, TDS did not have any nonfinancial assets or liabilities that required the application of fair value accounting for purposes of reporting such amounts in its Consolidated Balance Sheet.

## 5. Income Taxes

TDS' overall effective tax rate on Income before income taxes for the three and nine months ended September 30, 2010 was 35.4% and 37.0%, respectively, and for the three and nine months ended September 30, 2009 was 37.0% and 35.2%, respectively. The effective tax rate for the three months ended September 30, 2010 was lower than the rate for the three months ended September 30, 2009 primarily as a result of the favorable settlement of certain state income tax audits. The benefit from this change, along with other minor discrete benefits, decreased income tax expense for the three months ended September 30, 2010 by \$2.7 million; absent these benefits, the effective tax rate for such period would have been higher by 3.3 percentage points.



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The effective tax rate of 35.2% for the nine months ended September 30, 2009 was lower than the rate for the nine months ended September 30, 2010 due primarily to a 2009 state tax benefit resulting from a state tax law change that was recognized as a discrete item in the three months ended March 31, 2009. The benefit from this change, along with other minor discrete benefits, decreased income tax expense by \$8.2 million for the nine months ended September 30, 2009. Absent these benefits, the effective tax rate for the nine months ended September 30, 2009 would have been higher by 2.3 percentage points.

**6. Earnings Per Share**

Basic earnings per share attributable to TDS shareholders is computed by dividing Net income available to common shareholders of TDS by the weighted average number of common shares outstanding during the period. Diluted earnings per share attributable to TDS shareholders is computed by dividing Net income available to common shareholders of TDS by the weighted average number of common shares adjusted to include the effects of potentially dilutive securities. Potentially dilutive securities include incremental shares issuable upon exercise of outstanding stock options and the vesting of restricted stock units.

The amounts used in computing earnings per share and the effects of potentially dilutive securities on income and the weighted average number of Common, Special Common and Series A Common Shares are as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2010</b>	<b>September 30, 2009</b>	<b>September 30, 2010</b>	<b>September 30, 2009</b>
<b>(Dollars and shares in thousands, except per share amounts)</b>				
Basic earnings per share attributable to TDS shareholders				
Net income attributable to TDS shareholders	\$ 40,625	\$ 36,775	\$ 129,326	\$ 177,236
Preferred dividend requirement	(12)	(13)	(37)	(38)
Net income attributable to common shareholders of TDS used in basic earnings per share	40,613	\$ 36,762	\$ 129,289	\$ 177,198
Adjustments to compute diluted earnings:				
Noncontrolling interest (1)	(156)	(91)	(456)	(392)

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Preferred dividend (2)	12	12	37	37
Net income attributable to common shareholders of TDS used in diluted earnings per share	\$ 40,469	\$ 36,683	\$ 128,870	\$ 176,843
Weighted average number of shares used in basic earnings per share				
Common Shares	49,898	51,441	49,873	51,609
Special Common Shares	48,479	50,371	49,071	52,330
Series A Common Shares	6,504	6,477	6,499	6,469
Total	104,881	108,289	105,443	110,408
Effects of dilutive securities:				
Stock options	123	42	119	48
Restricted stock units	244	188	188	131
Preferred shares	50	46	50	46
Weighted average number of shares used in diluted earnings per share	105,298	108,565	105,800	110,633
Basic earnings per share attributable to TDS shareholders	\$ 0.39	\$ 0.34	\$ 1.23	\$ 1.60
Diluted earnings per share attributable to TDS shareholders	\$ 0.38	\$ 0.34	\$ 1.22	\$ 1.60

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(1) The noncontrolling income adjustment reflects the additional noncontrolling share of U.S. Cellular's income computed as if all of U.S. Cellular's issuable securities were outstanding.

(2) The preferred dividend adjustment reflects the dividend reduction related to preferred securities that were dilutive, and therefore treated as if converted for shares.

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Certain Common Shares and Special Common Shares issuable upon the exercise of Stock options, vesting of Restricted stock units or conversion of Convertible preferred shares were not included in average diluted shares outstanding for the calculation of Diluted earnings per share because their effects were antidilutive. The number of such Common Shares and Special Common Shares excluded is shown in the table below.

(Shares in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Stock options				
Common Shares	620	795	606	824
Special Common Shares	4,447	4,762	3,714	4,088
Restricted stock units				
Common Shares				
Special Common Shares			76	93
Convertible preferred shares				
Common Shares				

## 7. Acquisitions, Divestitures and Exchanges

TDS assesses its existing businesses on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on capital. As part of this strategy, TDS reviews attractive opportunities to acquire additional wireless operating markets and wireless spectrum; and telecommunications companies and related service businesses. In addition, TDS may seek to divest outright or include in exchanges for other interests those interests that are not strategic to its long-term success.

On March 19, 2010, TDS acquired 100% of the outstanding shares of VISI Incorporated ( VISI ) for \$18.2 million in cash, including working capital adjustments finalized during the second quarter of 2010. VISI is a managed services company which provides colocation, dedicated hosting, Internet and virtual computing services to small and medium-sized companies. VISI is included in the TDS Telecom ILEC business segment for reporting purposes.

TDS acquisitions during the nine months ended September 30, 2010 and 2009 and the allocation of the purchase price for these acquisitions were as follows:

	<b>Purchase price (1)</b>	<b>Goodwill (2)</b>	<b>Allocation of Purchase Price Licenses</b>	<b>Intangible assets subject to amortization</b>	<b>Net tangible assets (liabilities)</b>
<b>(Dollars in thousands)</b>					
<b>2010</b>					
U.S. Cellular licenses	\$ 10,501	\$	\$ 10,501	\$	\$
TDS Telecom ILEC business	18,191	5,336		7,900	4,955
Total	\$ 28,692	\$ 5,336	\$ 10,501	\$ 7,900	\$ 4,955
<b>2009</b>					
U.S. Cellular licenses	\$ 12,250	\$	\$ 12,250	\$	\$
TDS Telecom					
ILEC business	289	289			
ILEC other	14	14			
Total	\$ 12,553	\$ 303	\$ 12,250	\$	\$

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(1) Cash amounts paid for acquisitions may differ from the purchase price due to cash acquired in the transactions and the timing of cash payments related to the respective transactions.

(2) None of the goodwill was amortizable for income tax purposes.



Table of Contents**8. Licenses and Goodwill**

Changes in TDS licenses and goodwill for the nine months ended September 30, 2010 and 2009 are presented below.

<u>Licenses</u>		<b>U.S. Cellular (1)</b>	<b>TDS Telecom</b>	<b>Total</b>	
<b>(Dollars in thousands)</b>					
Balance December 31, 2009	\$	1,440,225	\$ 2,800	\$ 1,443,025	
Acquisitions		10,501		10,501	
Balance September 30, 2010	\$	1,450,726	\$ 2,800	\$ 1,453,526	
Balance December 31, 2008	\$	1,438,640	\$ 2,800	\$ 1,441,440	
Acquisitions		12,250		12,250	
Other		(164)		(164)	
Balance September 30, 2009	\$	1,450,726	\$ 2,800	\$ 1,453,526	
<u>Goodwill</u>		<b>U.S. Cellular (1)</b>	<b>TDS Telecom (2)</b>	<b>Other (3)</b>	<b>Total</b>
<b>(Dollars in thousands)</b>					
Assigned value at time of acquisition	\$	617,222	\$ 450,156	\$ 3,802	\$ 1,071,180
Accumulated impairment losses in prior periods		(333,900)	(29,440)		(363,340)
Balance December 31, 2009		283,322	420,716	3,802	707,840
Acquisitions			5,336		5,336
Other (4)				5,459	5,459
Balance September 30, 2010	\$	283,322	\$ 426,052	\$ 9,261	\$ 718,635
Assigned value at time of acquisition	\$	616,764	\$ 449,853	\$ 3,802	\$ 1,070,419
Accumulated impairment losses in prior periods		(333,900)	(29,440)		(363,340)
Balance December 31, 2008		282,864	420,413	3,802	707,079
Acquisitions			303		303
Other		458			458

Balance September 30, 2009	\$	283,322	\$	420,716	\$	3,802	\$	707,840
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- (1) Prior to January 1, 2009, TDS accounted for U.S. Cellular's share repurchases as step acquisitions, allocating a portion of the share repurchase value to TDS licenses and goodwill, as required by GAAP in effect at that time. Consequently, U.S. Cellular's licenses, goodwill and accumulated impairment loss reported on a stand-alone basis do not match the TDS consolidated licenses, goodwill and accumulated impairment losses related to U.S. Cellular.
- (2) The entire goodwill balance of \$29.4 million at the TDS Telecom CLEC business segment was impaired in 2004. The remaining goodwill balance at TDS Telecom is attributed to the ILEC business segment.
- (3) Other consists of Non-reportable segment and Corporate investments.
- (4) Amount reclassified from Investments in unconsolidated entities to Goodwill in June 2010.

## 9. Investments in Unconsolidated Entities

Investments in unconsolidated entities consist of amounts invested in wireless and wireline entities in which TDS holds a noncontrolling interest. These investments are accounted for using either the equity or cost method.

Equity in earnings of unconsolidated entities totaled \$24.1 million and \$23.3 million in the three months ended September 30, 2010 and 2009, respectively, and \$75.0 million and \$67.0 million in the nine month-periods then ended, respectively. Of those amounts, TDS' investment in the Los Angeles SMSA Limited Partnership ( LA Partnership ) contributed \$16.1 and \$15.5 million in the three months ended September 30, 2010 and 2009, respectively, and \$49.5 million in the nine months ended September 30, 2010 and 2009. TDS held a 5.5% ownership interest in the LA Partnership during these periods.

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The following table summarizes the combined results of operations of TDS' equity method investments:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Revenues	\$ 1,266,000	\$ 1,216,000	\$ 3,713,000	\$ 3,596,000
Operating expenses	913,000	874,000	2,641,000	2,532,000
Operating income	353,000	342,000	1,072,000	1,064,000
Other income	7,000	8,000	25,000	28,000
Net income	\$ 360,000	\$ 350,000	\$ 1,097,000	\$ 1,092,000

**10. Commitments and Contingencies**Agreements

On August 17, 2010, U.S. Cellular and Amdocs Software Systems Limited ( Amdocs ) entered into agreements to develop a Billing and Operational Support System ( B/OSS ). Amdocs will license to U.S. Cellular certain customer order and relationship management, revenue management and billing software relating to the B/OSS.

The implementation of the licensed systems commenced in September 2010, and is expected to take approximately two years to complete. The total estimated amount to be paid to Amdocs with respect to the agreements for delivery of the B/OSS is \$73 million, and is expected to be paid out from August 2010 to October 2012. U.S. Cellular anticipates capitalizing a majority of these costs as Systems development costs and amortizing such capitalized costs over the estimated useful life of the B/OSS system. U.S. Cellular also is committed to purchase maintenance for an aggregate amount of \$36.4 million over a period of seven years, beginning in 2013.

Indemnifications

TDS enters into agreements in the normal course of business that provide for indemnification of counterparties. The terms of the indemnifications vary by agreement. The events or circumstances that would require TDS to perform under these indemnities are transaction specific; however, these agreements may require TDS to indemnify the counterparty for costs and losses incurred from litigation or claims arising from the underlying transaction. TDS is unable to estimate the maximum potential liability for these types of indemnifications as the amounts are dependent on the outcome of future events, the nature and likelihood of which cannot be determined at this time. Historically, TDS has not made any significant indemnification payments under such agreements.

### 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.

### **11. Variable Interest Entities (VIEs)**

From time to time, the FCC conducts auctions through which additional spectrum is made available for the provision of wireless services. Indirectly through its interests in Aquinas Wireless L.P. ( Aquinas Wireless ), King Street Wireless L.P. ( King Street Wireless ), Barat Wireless L.P. ( Barat Wireless ) and Carroll Wireless L.P. ( Carroll Wireless ), collectively, the limited partnerships, U.S. Cellular, TDS subsidiary, participated in and was awarded spectrum licenses in each of four separate spectrum auctions (FCC Auctions 78, 73, 66, and 58). Each limited partnership qualified as a designated entity and thereby was eligible for bidding credits with respect to 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.

Table of ContentsConsolidated VIEs

As of September 30, 2010, TDS consolidates the following VIEs under GAAP:

- Aquinas Wireless;
- King Street Wireless and King Street Wireless, Inc., the general partner of King Street Wireless;
- Barat Wireless and Barat Wireless, Inc., the general partner of Barat Wireless; and
- Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless.

TDS holds a variable interest in the entities listed above. It has made capital contributions and/or advances to these entities. The power to direct the activities of the VIEs that most significantly impact their economic performance is shared. Specifically, the general partner of each of these VIEs has the exclusive right to manage, operate and control the limited partnerships and make all decisions to carry on the business of the partnerships; however, the general partner of each partnership needs consent of the limited partner, a TDS subsidiary, to sell or lease certain licenses, to make certain large expenditures, admit other partners or liquidate the limited partnerships. Although the power to direct the activities of the VIEs is shared, TDS has a disproportionate level of exposure to the variability associated with the economic performance of the VIEs, indicating that TDS is the primary beneficiary of the VIEs in accordance with GAAP. Accordingly, these VIEs are consolidated.

Following is a summary of the capital contributions and advances made to each entity by TDS as of September 30, 2010. The amounts shown in the table below exclude funds provided to these entities solely from the shareholder of the general partner.

**(Dollars in thousands)**

Aquinas Wireless	\$	2,132
King Street Wireless & King Street Wireless, Inc.		300,904
Barat Wireless & Barat Wireless, Inc.		127,685
Carroll Wireless &		

Carroll PCS, Inc.		131,294
	\$	562,015

The following table presents the classification of the consolidated VIEs assets and liabilities in TDS Consolidated Balance Sheet.

		September 30,	December 31,
		2010	2009
<b>(Dollars in thousands)</b>			
<b>Assets</b>			
	Cash	\$ 994	\$ 679
	Other current assets	263	393
	Licenses	487,962	487,962
	Other assets	1,548	440
	Total assets	\$ 490,767	\$ 489,474
<b>Liabilities</b>			
	Customer deposits and deferred revenues	\$ 76	\$ 70
	Total liabilities	\$ 76	\$ 70

#### Other Related Matters

TDS may agree to make additional capital contributions and/or advances to the VIEs discussed above and/or to their general partners to provide additional funding for the development of licenses granted in the various auctions. TDS may finance such amounts with a combination of cash on hand, borrowings under its revolving credit agreement and/or long-term debt. There is no assurance that TDS will be able to obtain additional financing on commercially reasonable terms or at all to provide such financial support.

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These VIEs are in the process of developing long-term business and financing plans. These entities were formed to participate in FCC auctions of wireless spectrum and to fund, establish, and provide wireless service with respect to any FCC licenses won in the auctions. As such, these entities have risks similar to the business risks described in the Risk Factors in TDS Form 10-K for the year ended December 31, 2009.

**12. TDS and U.S. Cellular Share Repurchases**

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 from time to time pursuant to open market purchases, block transactions, private purchases or otherwise, depending on market conditions. This authorization will expire on November 19, 2012.

On November 17, 2009, the Board of Directors of U.S. Cellular authorized the repurchase of up to 1,300,000 Common Shares on an annual basis beginning in 2009 and continuing each year thereafter, on a cumulative basis. These purchases will be made pursuant to open market purchases, block purchases, private purchases, or otherwise, depending on market prices and other conditions. This authorization does not have an expiration date.

Share repurchases made under these authorizations and prior authorizations were as follows:

<b><u>Nine Months Ended September 30,</u></b> <b>(Dollars and shares in thousands, except cost per share)</b>	<b>Number of Shares</b>	<b>Average Cost Per Share</b>	<b>Amount (1)</b>
<b><u>2010</u></b>			
U.S. Cellular Common Shares	970	\$ 41.79	\$ 40,520
TDS Common Shares			
TDS Special Common Shares	1,784	28.33	50,543
<b><u>2009</u></b>			
U.S. Cellular Common Shares	647	\$ 37.53	\$ 24,283
TDS Common Shares	1,484	29.52	43,826
TDS Special Common Shares	4,337	26.78	116,167

(1) Amounts reported on the Consolidated Statement of Cash Flows may differ from these amounts due to repurchases and subsequent cash settlements occurring in different periods.

**13. Noncontrolling Interests**

The following schedule discloses the effects of net income attributable to TDS shareholders and changes in TDS ownership interest in U.S. Cellular on TDS equity for the nine months ended September 30, 2010 and 2009:

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>(Dollars in thousands)</b>		
Net income attributable to TDS shareholders	\$ 129,326	\$ 177,236
Transfer (to) from the noncontrolling interests		
Change in TDS Capital in excess of par value from U.S. Cellular's issuance of U.S. Cellular shares	(4,899)	(3,718)
Change in TDS Capital in excess of par value from U.S. Cellular's repurchase of U.S. Cellular shares	(1,521)	276
Purchase of ownership in subsidiaries from noncontrolling interests	(3,492)	
Net transfers (to) from noncontrolling interests	(9,912)	(3,442)
Change from net income attributable to TDS and transfers (to) from noncontrolling interests	\$ 119,414	\$ 173,794

**Mandatorily Redeemable Noncontrolling Interests in Finite-Lived Subsidiaries**

Under GAAP, certain noncontrolling interests in consolidated entities with finite lives may meet the definition of mandatorily redeemable financial instruments. TDS consolidated financial statements include certain noncontrolling interests that meet the



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definition of mandatorily redeemable financial instruments. These mandatorily redeemable noncontrolling interests represent interests held by third parties in consolidated partnerships and limited liability companies ( LLCs ), where the terms of the underlying partnership or LLC agreement provide for a defined termination date at which time the assets of the subsidiary are to be sold, the liabilities are to be extinguished and the remaining net proceeds are to be distributed to the noncontrolling interest holders and TDS in accordance with the respective partnership and LLC agreements. The termination dates of these mandatorily redeemable noncontrolling interests range from 2085 to 2107.

The settlement value of TDS mandatorily redeemable noncontrolling interests in finite-lived subsidiaries was estimated to be \$154.8 million at September 30, 2010. This amount represents the estimate of cash that would be due and payable to settle these noncontrolling interests assuming an orderly liquidation of the finite-lived consolidated partnerships and LLCs on September 30, 2010, net of estimated liquidation costs. This amount excludes redemption amounts recorded in Noncontrolling interests with redemption features in the Consolidated Balance Sheet. TDS currently has no plans or intentions relating to the liquidation of any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the mandatorily redeemable noncontrolling interests in finite-lived consolidated partnerships and LLCs at September 30, 2010 was \$49.6 million, and is included in Noncontrolling interests in the Consolidated Balance Sheet. The excess of the aggregate settlement value over the aggregate carrying value of these mandatorily redeemable noncontrolling interests is primarily due to the unrecognized appreciation of the noncontrolling interest holders share of the underlying net assets in the consolidated partnerships and LLCs. Neither the noncontrolling interest holders share, nor TDS share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements. The estimate of settlement value was based on certain factors and assumptions which are subjective in nature. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount.

**14. Accumulated Other Comprehensive Income (Loss)**

The changes in the cumulative balance of Accumulated other comprehensive income (loss) were as follows:

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>
	<b>2010</b>	<b>2009</b>
<b>(Dollars in thousands)</b>		
<b>Equity Method Investments</b>		
Balance, beginning of period	\$ 306	\$ 608
Add (deduct):		
Unrealized gains (losses) of equity method companies	84	(302)

Net change in equity method investments	84	(302)
Balance, end of period	\$ 390	\$ 306
<b>Retirement Plans</b>		
Balance, beginning of period	\$ (3,016)	\$ (13,999)
Add (deduct):		
Amounts included in net periodic benefit cost for the period		
Amortization of prior service cost	(2,861)	(601)
Amortization of unrecognized net loss	1,618	1,355
	(1,243)	754
Deferred income taxes	474	(12)
Net change in retirement plans	(769)	742
Balance, end of period	\$ (3,785)	\$ (13,257)
<b>Accumulated Other Comprehensive Income (Loss)</b>		
Balance, beginning of period	\$ (2,710)	\$ (13,391)
Add (deduct):		
Net change in equity method investments	84	(302)
Net change in retirement plans	(769)	742
Balance, end of period	\$ (3,395)	\$ (12,951)

Table of Contents**15. Business Segment Information**

Financial data for TDS business segments for the three and nine-month periods ended, or as of September 30, 2010 and 2009, is as follows. TDS Telecom's incumbent local exchange carriers are designated as ILEC in the table and its competitive local exchange carrier is designated as CLEC.

			TDS Telecom			Non-	Other	Total
Three	U.S.	ILEC	CLEC	ILEC/CLEC	TDS	Reportable	Reconciling	
Months	Cellular			Eliminations	Telecom	Segment	Items (2)	
Ended or as					Total	(1)		
of								
<b>September 30, 2010</b>								
<b>(Dollars in thousands)</b>								
Operating revenues	\$ 1,060,781	\$ 157,386	\$ 47,038	\$ (2,394)	\$ 202,030	\$ 8,559	\$ (4,954)	\$ 1,266,416
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	407,312	51,820	24,482	(2,355)	73,947	6,465	(413)	487,311
Selling, general and administrative expense	446,938	43,195	16,309	(39)	59,465	1,370	(5,179)	502,594
Adjusted OIBDA (3)	206,531	62,371	6,247		68,618	724	638	276,511
(4) Depreciation, amortization and accretion expense	144,717	37,528	6,117		43,645	433	2,177	190,972

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Loss on asset disposals, net	1,981	312	78		390		7	2,378
Operating income (loss)	59,833	24,531	52		24,583	291	(1,546)	83,161
Total assets	5,859,091	1,461,544	117,535		1,579,079	22,092	233,569	7,693,831
Capital expenditures	124,688	32,981	5,521		38,502	275	4,723	168,188

			TDS Telecom			Non-	Other	Total
Three Months Ended or as of	U.S. Cellular	ILEC	CLEC	ILEC/CLEC Eliminations	TDS Telecom Total	Reportable Segment (1)	Reconciling Items (2)	
<b>September 30, 2009</b> (Dollars in thousands)								
Operating revenues	\$ 1,057,295	\$ 149,659	\$ 49,153	\$ (2,270)	\$ 196,542	\$ 10,534	\$ (6,634)	\$ 1,257,737
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	394,965	50,352	26,008	(1,890)	74,470	8,256	(422)	477,269
Selling, general and administrative expense	454,645	41,397	15,952	(380)	56,969	1,665	(6,314)	506,965
Adjusted OIBDA (3) (4)	207,685	57,910	7,193		65,103	613	102	273,503
Depreciation, amortization and accretion expense	146,052	35,652	6,094		41,746	636	2,279	190,713
Loss on asset disposals,	2,085	1,072	63		1,135	20	31	3,271

net Operating income (loss)	59,548	21,186	1,036	22,222	(43 )	(2,208)	79,519
Total assets	5,854,055	1,484,047	124,645	1,608,692	24,458	258,200	7,745,405
Capital expenditures	128,868	23,847	4,660	28,507	42	2,356	159,773

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Nine Months Ended or as of	U.S. Cellular	ILEC	TDS Telecom		TDS Telecom Total	Non- Reportable Segment (1)	Other Reconciling Items (2)	Total
			CLEC	ILEC/CLEC Eliminations				
<b>September 30, 2010</b>								
<b>(Dollars in thousands)</b>								
Operating revenues	\$ 3,114,531	\$ 461,800	\$ 142,106	\$ (7,165)	\$ 596,741	\$ 27,414	\$ (17,616)	\$ 3,721,070
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	1,151,038	147,614	73,469	(6,833)	214,250	20,954	(1,362)	1,384,880
Selling, general and administrative expense	1,321,720	129,099	47,825	(332)	176,592	4,686	(17,988)	1,485,010
Adjusted OIBDA (3)	641,773	185,087	20,812		205,899	1,774	1,734	851,180
Depreciation, amortization and accretion expense	432,405	111,433	18,784		130,217	1,482	6,515	570,619
(Gain) loss on asset disposals, net	8,407	344	323		667	(76 )	25	9,023
Operating income (loss)	200,961	73,310	1,705		75,015	368	(4,806)	271,538
Total assets	5,859,091	1,461,544	117,535		1,579,079	22,092	233,569	7,693,831
	379,692	81,338	14,111		95,449	979	10,018	486,138

Capital  
expenditures

Nine Months Ended or as of	U.S. Cellular	ILEC	TDS Telecom		TDS Telecom Total	Non-	Other	Total
			CLEC	ILEC/CLEC Eliminations		Reportable Segment (1)	Reconciling Items (2)	
<b>September 30, 2009</b> (Dollars in thousands)								
Operating revenues	\$ 3,153,782	\$ 448,054	\$ 150,435	\$ (6,685)	\$ 591,804	\$ 32,503	\$ (20,056)	\$ 3,758,033
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	1,131,418	146,442	79,127	(5,731)	219,838	25,707	(1,280)	1,375,683
Selling, general and administrative expense	1,274,261	127,509	50,689	(954)	177,244	5,492	(15,093)	1,441,904
Adjusted OIBDA (3) (4)	748,103	174,103	20,619		194,722	1,304	(3,683)	940,446
Depreciation, amortization and accretion expense	422,707	107,040	18,232		125,272	1,944	7,295	557,218
Loss on asset disposals, net	8,641	1,493	259		1,752	13	56	10,462
Operating income (loss)	316,755	65,570	2,128		67,698	(653 )	(11,034)	372,766
Total assets	5,854,055	1,484,047	124,645		1,608,692	24,458	258,200	7,745,405
Capital expenditures	357,770	71,447	15,384		86,831	231	5,762	450,594

- (1) Represents Suttle-Straus.
- (2) Consists of corporate operations, intercompany eliminations between U.S. Cellular, TDS Telecom and corporate operations.
- (3) 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). Adjusted OIBDA is a segment measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. This amount may also be commonly referred to by management as operating cash flow. This amount should not be confused with Cash flows from operating activities, which is a component of the Consolidated Statement of Cash Flows.
- (4) Adjusted OIBDA excludes the net gain or loss on asset disposals and loss on impairment of assets (if any), in order to show operating results on a more comparable basis from period to period. TDS does not intend to imply that any of such amounts that are excluded are non-recurring, infrequent or unusual. Accordingly you should be aware that TDS may incur such amounts in the future.



Table of Contents**16. Supplemental Cash Flow Disclosures**

Following are supplemental cash flow disclosures regarding transactions related to stock-based compensation awards:

**TDS:**

	<b>Nine Months Ended</b>			
	<b>September 30,</b>			
	<b>2010</b>		<b>2009</b>	
<b>(Dollars and shares in thousands)</b>				
Common Shares withheld				
Special Common Shares withheld				
Aggregate value of Common Shares withheld	\$		\$	
Aggregate value of Special Common Shares withheld				
Cash receipts upon exercise of stock options	\$	1,183	\$	1,296
Cash disbursements for payment of taxes				
Net cash receipts from exercise of stock options and vesting of other stock awards	\$	1,183	\$	1,296

**U.S. Cellular:**

	<b>Nine Months Ended</b>			
	<b>September 30,</b>			
	<b>2010</b>		<b>2009</b>	
<b>(Dollars and shares in thousands)</b>				
Common Shares withheld (1)		269		34
Aggregate value of Common Shares withheld	\$	11,597	\$	1,245
Cash receipts upon exercise of stock options	\$	2,621	\$	1,126
Cash disbursements for payment of taxes (2)		(1,883)		(1,245)

Net cash receipts from exercise of stock options and vesting of other stock awards	\$	738	\$	(119)
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(1) Such shares were withheld to cover the exercise price of stock options, if applicable, and required tax withholdings.

(2) In certain situations, TDS and U.S. Cellular withhold shares that are issuable upon the exercise of stock options or the vesting of restricted shares to cover, and with a value equivalent to, the amount of taxes required to be withheld from the stock award holder at the time of the exercise or vesting. TDS and U.S. Cellular then pay the amount of the required tax withholdings to the taxing authorities in cash.

TDS declared and paid dividends of \$35.5 million or \$0.3375 per share during the nine months ended September 30, 2010. TDS declared and paid dividends of \$35.4 million or \$0.3225 per share in the nine months ended September 30, 2009.

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**Item 2. 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 September 30, 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. which represents a small portion of TDS operations.

The following discussion and analysis should be read in conjunction with TDS interim consolidated financial statements and notes included in Item 1 above, and with the description of TDS business, its audited consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in TDS Current Report on Form 8-K (Items 8.01 and 9.01) filed with the SEC on August 5, 2010, which should be read in conjunction with the TDS Annual Report on Form 10-K ( Form 10-K ) for the year ended December 31, 2009.

**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 overview 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 September 30, 2010, U.S. Cellular's average penetration rate in its consolidated operating markets was 13.1%. 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 the nine months ended September 30, 2010 included the following:

- Total customers were 6,103,000 at September 30, 2010, including 5,750,000 retail customers.
- Retail customer net additions were 6,000 in 2010 compared to a net loss of 2,000 in 2009. In the postpaid category, there was a net loss of 56,000 in 2010 compared to net additions of 36,000 in 2009. Prepaid net additions were 62,000 in 2010 compared to a net loss of 38,000 in 2009.
- Postpaid customers comprised approximately 94% of U.S. Cellular's retail customers as of September 30, 2010. The postpaid churn rate improved to 1.5% in 2010 compared to 1.6% in 2009.
- Service revenues of \$2,921.1 million decreased \$20.6 million (1%) year-over-year, primarily due to decreases in retail service revenues (\$16.7 million) and inbound roaming revenues (\$5.3 million). Retail service revenues decreased due to a decline in voice revenues which was partially offset by continued growth in data revenues. Data revenues grew 31% year-over-year to \$645.4 million.
- Additions to property, plant and equipment totaled \$379.7 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 7,524.

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- 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 to 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 August 2010, U.S. Cellular entered into agreements with Amdocs Software Systems Limited to develop a B/OSS as described in Note 10 Commitments and Contingencies in the Notes to Consolidated Financial Statements.

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

- 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 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 recent industry consolidation, such as Verizon's acquisition of Alltel and possible further 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;
  
- 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
  
- On October 1, 2010, U.S. Cellular launched The Belief Project which introduced several innovative service offerings including no contract after the first; 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. The Belief Project is intended to accelerate growth and have a positive impact on long-term profitability by increasing postpaid gross additions with a goal of at least 10 percent 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.

See Results of Operations Wireless.

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U.S. Cellular's current estimates of full-year 2010 results are shown below. Such estimates represent U.S. Cellular's views as of the date of filing of U.S. Cellular's Quarterly Report on Form 10-Q ( Form 10-Q ) for the quarterly period ended September 30, 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.

	<b>Current Estimates</b>	<b>Previous Estimates (1)</b>
Service revenues	\$3,925-\$3,975 million	\$3,925-\$4,000 million
Adjusted OIBDA (2)	\$800-\$850 million	Unchanged
Operating income (3)	\$200-\$250 million	Unchanged
Depreciation, amortization and accretion expenses, and losses on disposals and impairment of assets (3)	Approx. \$600 million	Unchanged
Capital expenditures	Approx. \$600 million	Unchanged

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(1) The 2010 Estimated Results as disclosed in TDS' Quarterly Report on Form 10-Q for the period ended June 30, 2010.

(2) 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.

(3) The 2010 Estimated Results include estimates for Depreciation, amortization and accretion expenses and losses on disposals of assets, but do not include an estimate for losses on impairment of assets since these cannot be predicted.

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 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 handsets 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 enable future growth, including The Belief Project described above. 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. The 2010 benefits and expenses associated with The Belief Project were incorporated into U.S. Cellular's 2010 financial guidance from the beginning of the year.

### **TDS Telecom**

TDS Telecom provides high-quality telecommunications 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 as a full-service telecommunications company, including both ILEC and CLEC operations. TDS Telecom's strategy is to be the preferred provider of telecommunications and related services including voice, broadband and video services in its chosen markets. 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 when 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 ILECs and CLECs are faced with significant challenges, including growing competition from wireless and other wireline providers (other CLECs and cable providers), changes in regulation, technologies such as Voice over Internet Protocol ( VoIP ) and uncertainty in the economy. 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 in the nine months ended September 30, 2010 included the following:



- Overall equivalent access lines served by TDS Telecom as of September 30, 2010 decreased 2% to 1,112,500 compared to September 30, 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.

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- Operating revenues of \$596.7 million remained flat in 2010 compared to 2009 primarily due to an increase in ILEC data customers and revenue from acquisitions offset by a decline in ILEC and CLEC physical access lines.
- Operating expenses of \$521.7 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.

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 Voice over Internet Protocol ( VoIP ), third generation Evolution-Data Optimized ( 3G ) mobile networks, and the development of fourth-generation mobile technology ( 4G );
- Continued declines in physical access lines in service related to voice lines and second lines and continued increases in high-speed data customers;
- Continued focus on customer retention programs, including discounting for triple-play bundles including voice, DSL and satellite TV;
- Continued focus on cost-reduction initiatives through product cost improvement and process efficiencies;
- Effects on competition of recent industry consolidation, such as the recent 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.

See Results of Operations Wireline.

2010 Wireline Estimates

TDS Telecom's current estimates of full-year 2010 results are shown below. Such forward-looking statements should not be assumed to be accurate as of any future date. Such estimates represent TDS Telecom's view as of the filing date of TDS Form 10-Q for the quarterly period ended September 30, 2010. 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 these estimated results.

	<b>Current Estimates</b>	<b>Previous Estimates (1)</b>
ILEC and CLEC Operations:		
Operating revenues	\$785 - \$800 million	\$760 - \$790 million
Adjusted OIBDA (2)	\$265 - \$280 million	\$250 - \$275 million
Operating income (3)	\$90 - \$105 million	\$80 - \$105 million
Depreciation, amortization and accretion expenses and losses on asset disposals (3)	Approx. \$175 million	Approx. \$170 million
Capital expenditures (4)	Approx. \$155 million	Unchanged

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(1) The 2010 Estimated Results as disclosed in TDS Quarterly Report on Form 10-Q for the period ended June 30, 2010.

(2) 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.

(3) The 2010 Estimated Results include only the estimate for Depreciation, amortization and accretion expenses and losses on asset disposals, but do not include an estimate for losses on impairment of assets since these cannot be predicted.

(4) The capital expenditure guidance does not include federal grants awarded to TDS Telecom through the Broadband Stimulus programs under the American Recovery and Reinvestment Act.

The above estimates reflect the expectations of TDS Telecom's management considering the current general economic conditions. During this challenging business environment, TDS Telecom will continue to focus on its cost-reduction initiatives through product cost improvement and process efficiencies. TDS Telecom also plans to continue to focus on customer retention programs, including triple-play bundles including voice, DSL and satellite TV.

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**Cash Flows and Investments**

TDS and its subsidiaries had cash and cash equivalents totaling \$390.0 million; short-term investments in the form of U.S. treasury securities, certificates of deposit and corporate notes aggregating \$389.1 million; long-term investments in the form of U.S. treasury securities and corporate notes of \$121.4 million; and borrowing capacity under their revolving credit facilities of \$696.4 million as of September 30, 2010. Also, during the nine months ended September 30, 2010, TDS and its subsidiaries generated \$764.8 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.

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

**Recent Developments**

American Recovery and Reinvestment Act

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 \$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 U.S. Cellular's and TDS Telecom's service areas.

National Broadband Plan and Related Matters

In 2009, Congress directed the FCC to develop a National Broadband 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 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 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's business, financial condition or results of operations.

### Net Neutrality

As disclosed in TDS's Annual Report on Form 10-K for the year ended December 31, 2009, the FCC initiated a rulemaking proceeding in 2009 designed to codify its existing Net Neutrality principles and impose new requirements that could have the effect of restricting the ability of wireless and wireline Internet service providers to manage applications and content that traverse their networks. These principles, which the FCC initially announced in 2005, espoused the right of consumers to access lawful Internet content, to run applications and use services of their choice. In 2008, the FCC ruled that Comcast had violated these principles by moderating the amount of bandwidth used by certain peer-to-peer services and ordered Comcast to discontinue this practice. Comcast challenged this order and, on April 6, 2010, the U.S. Court of Appeals for the District of Columbia Circuit ruled that the FCC had exceeded its authority under the Communications Act of 1934, as amended, when it sought to regulate Comcast's network management practices for its high-speed Internet access service. In 2010, the FCC sought and received

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comments on its Net Neutrality proposals and concerning the impact of the Comcast case on those proposals. It is currently evaluating those comments. Accordingly, the status of the FCC's network neutrality proceeding is uncertain at this time and, as a result, there may be further proceedings or legislation relating to the FCC's authority to regulate the Internet. TDS cannot predict the ultimate outcome of this matter or the effect it will have on its wireless or wireline broadband services.

Table of Contents**RESULTS OF OPERATIONS CONSOLIDATED**

<b>Nine Months Ended September 30, (Dollars in thousands, except per share amounts)</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>Percentage Change</b>
<b>Operating revenues</b>				
U.S. Cellular	\$ 3,114,531	\$ 3,153,782	\$ (39,251)	(1)%
TDS Telecom	596,741	591,804	4,937	1%
All other (1)	9,798	12,447	(2,649)	(21)%
Total operating revenues	3,721,070	3,758,033	(36,963)	(1)%
<b>Operating expenses</b>				
U.S. Cellular	2,913,570	2,837,027	76,543	3%
TDS Telecom	521,726	524,106	(2,380)	
All other (1)	14,236	24,134	(9,898)	(41)%
Total operating expenses	3,449,532	3,385,267	64,265	2%
<b>Operating income (loss)</b>				
U.S. Cellular	200,961	316,755	(115,794)	(37)%
TDS Telecom	75,015	67,698	7,317	11%
All other (1)	(4,438)	(11,687)	7,249	62%
Total operating income	271,538	372,766	(101,228)	(27)%
<b>Other income and (expenses)</b>				
Equity in earnings of unconsolidated entities	75,047	67,034	8,013	12%
Interest and dividend income	7,900	8,435	(535)	(6)%
Interest expense	(86,520)	(93,898)	7,378	8%
Other, net	(2,557)	1,504	(4,061)	>(100)%
Total other income (expenses)	(6,130)	(16,925)	10,795	64%
<b>Income before income taxes</b>				
	265,408	355,841	(90,433)	(25)%
Income tax expense	98,167	125,412	(27,245)	(22)%
<b>Net income</b>				
	167,241	230,429	(63,188)	(27)%
Less: Net income attributable to noncontrolling interests, net of tax	(37,915)	(53,193)	15,278	29%
<b>Net income attributable to TDS shareholders</b>				
	129,326	177,236	(47,910)	(27)%
Preferred dividend requirement	(37)	(38)	1	3%
<b>Net income available to common shareholders</b>				
	\$ 129,289	\$ 177,198	\$ (47,909)	(27)%
<b>Basic earnings per share attributable to TDS shareholders</b>				
	\$ 1.23	\$ 1.60	(0.37)	(23)%



<b>Diluted earnings per share attributable to TDS shareholders</b>	\$	1.22	\$	1.60	(0.38)	(24)%
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(1) Consists of other corporate operations, intercompany eliminations between U.S. Cellular, TDS Telecom and corporate investments.

### **Operating Revenues and Expenses**

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

### **Equity in earnings of unconsolidated entities**

Equity in earnings of unconsolidated entities represents TDS share of net income from entities in which it has a noncontrolling interest and that are 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 \$49.5 million to Equity in earnings from unconsolidated entities in both 2010 and 2009. Equity income increased primarily due to a \$7.1 million impairment loss recognized on an equity method investment in 2009.

Table of Contents**Interest expense**

The decrease in interest expense in 2010 was primarily a result of a \$8.5 million decrease in interest due to redemption of U.S. Cellular's 8.75% senior notes in December 2009.

**Income tax expense**

See Note 5 – Income Taxes in the Notes to Consolidated Financial Statements for a discussion of the change in income tax expense and the overall effective tax rate on Income before income taxes.

**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 and the noncontrolling shareholders' or partners' share of certain U.S. Cellular subsidiaries' net income or loss.

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>(Dollars in thousands)</b>		
Net income attributable to U.S. Cellular noncontrolling interests, net of tax		
Noncontrolling public shareholders	\$ (22,500)	\$ (37,237)
Noncontrolling shareholders or partners	(15,415)	(15,956)
	\$ (37,915)	\$ (53,193)

Table of Contents**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.

<b>As of September 30, (1)</b>	<b>2010</b>	<b>2009</b>
Total market population of consolidated operating markets (2)	46,546,000	46,306,000
Customers (3)	6,103,000	6,131,000
Market penetration (2)	13.1%	13.2%
Total full-time equivalent employees	8,846	8,735
Cell sites in service	7,524	7,161
 <b>For the Nine Months Ended September 30, (4)</b>		
Net retail customer additions (5)	6,000	(2,000)
Net customer additions (5)	(38,000)	(65,000)
Average monthly service revenue per customer (6)     \$	52.90	\$ 52.83
Postpaid churn rate (7)	1.5%	1.6%

(1) Amounts include results for U.S. Cellular's consolidated operating markets as of September 30.

(2) Calculated using 2009 and 2008 Claritas population estimates for 2010 and 2009, 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 6.75%, and 85,118,000 and 7.20%, as of September 30, 2010 and 2009, respectively.

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

	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
Customers on postpaid service plans in which the end user is a customer of U.S. Cellular ( postpaid customers )	5,426,000	5,456,000
Customers on prepaid service plans in which the end user is a customer of U.S. Cellular ( prepaid customers )	324,000	249,000
Total retail customers	5,750,000	5,705,000
End user customers acquired through U.S. Cellular's agreements with third parties ( reseller customers )	353,000	426,000
Total customers	6,103,000	6,131,000

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(4) Amounts include results for U.S. Cellular's consolidated operating markets for the period January 1 through September 30; operating markets acquired during a particular period are included as of the acquisition date.

(5) Net retail customer additions represents the number of net customers added 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 represents the number of net customers added to 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.

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

**Nine Months Ended**

September 30,

	<b>2010</b>		<b>2009</b>
Service revenues per Consolidated Statement of Operations (000s)	\$ 2,921,087	\$	2,941,720
Divided by average customers during period (000s)*	6,135		6,187
Divided by number of months in each period	9		9
Average monthly service revenue per customer	\$ 52.90	\$	52.83

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\* Average customers during period is calculated by adding the number of total customers, including reseller 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.

(7) Postpaid churn rate represents the percentage of the postpaid customer base that disconnects service each month.

Table of Contents**Components of Operating Income**

<b>Nine Months Ended September 30, (Dollars in thousands)</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>Percentage Change</b>
Retail service	\$ 2,594,641	\$ 2,611,342	\$ (16,701)	(1)%
Inbound roaming	185,745	191,047	(5,302)	(3)%
Other	140,701	139,331	1,370	1 %
Service revenues	2,921,087	2,941,720	(20,633)	(1)%
Equipment sales	193,444	212,062	(18,618)	(9)%
Total operating revenues	3,114,531	3,153,782	(39,251)	(1)%
System operations (excluding Depreciation, amortization and accretion reported below)	638,677	600,308	38,369	6 %
Cost of equipment sold	512,361	531,110	(18,749)	(4)%
Selling, general and administrative	1,321,720	1,274,261	47,459	4 %
Depreciation, amortization and accretion	432,405	422,707	9,698	2 %
Loss on asset disposals, net	8,407	8,641	(234)	(3)%
Total operating expenses	2,913,570	2,837,027	76,543	3 %
Operating income	\$ 200,961	\$ 316,755	\$ (115,794)	(37)%

**Operating Revenues***Service revenues*

Service revenues consist primarily of: (i) charges for access, airtime, roaming, recovery of regulatory costs and value added services, including data products and services and long distance, provided to U.S. Cellular's retail customers and to end users through third party resellers ( retail service ); (ii) charges to other wireless carriers whose customers use U.S. Cellular's wireless systems when roaming, including long-distance roaming ( inbound roaming ); and (iii) amounts received from the USF.

*Retail service revenues*

The decrease in Retail service revenues in 2010 was primarily due to a significant reduction in revenues from voice services.

- The average number of customers decreased to 6,135,000 in 2010 from 6,187,000 in 2009.
- Average monthly retail service revenue per customer increased slightly to \$46.99 in 2010 from \$46.90 in 2009. The net increase resulted from growth in revenues from data products and services and revenues related to regulatory cost recovery, which together offset a decline in revenues from voice services. The increase in average monthly retail service revenue per customer also reflects the impact of a reduction in the number of lower revenue reseller customers.

Revenues from voice services declined year-over-year primarily due to a reduction in average voice revenue per customer. The reduction in average voice revenue per customer reflects industry competition which has resulted in lower pricing overall as well as growth in family plans and service plans with enhanced coverage areas and value (such as free incoming calls, free mobile-to-mobile and unlimited minutes). U.S. Cellular expects continued pressure on revenues from voice services in the foreseeable future due to industry competition related to service plan offerings.

Revenues from data products and services totaled \$645.4 million in 2010 and \$493.2 million in 2009, and represented 22% of service revenues in 2010 compared to 17% of service revenues in 2009. Such growth, which positively impacted average monthly retail service revenue per customer, reflected customers' continued and increasing usage of U.S. Cellular's text, picture, and video messaging services, **easyedge**<sup>SM</sup> service and applications, premium mobile Internet services, smartphone handsets and services, and modems. In March 2010, U.S. Cellular launched new data offerings for its prepaid customers, which included picture and video messaging, ringtones, email services, and **easyedge**<sup>SM</sup> service and applications. U.S. Cellular expects that the growth in

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revenues from data products and services will continue as customers increasingly purchase premium and smartphone devices along with data plans and applications and utilize U.S. Cellular's 3G network. U.S. Cellular's 3G network covered approximately 98% of its customers as of September 30, 2010. Effective for the fourth quarter of 2010, U.S. Cellular will no longer separately disclose revenues from data products and services as the determination of such revenues is increasingly dependent on allocations of bundled service prices to multiple bundled elements.

Revenues related to regulatory cost recovery increased due to an increase in the USF contribution rates established by the FCC (most of the USF contribution revenues for amounts passed through to customers are offset by expenses as discussed below).

On October 1, 2010, U.S. Cellular launched The Belief Project, as discussed in the Overview section above. In connection with such launch, U.S. Cellular elected to early adopt the provisions of Accounting Standards Update No. 2009-13, *Multiple Deliverable Revenue Arrangements - a consensus of FASB Emerging Issues Task Force* (ASU 2009-13), as discussed in Note 3 - Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements. In accordance with ASU 2009-13, U.S. Cellular will be required to defer the recognition of revenue related to amounts billed to customers that are attributed to loyalty rewards points until such points are redeemed or expire; thus, ASU 2009-13 will impact the timing of recognition of revenue attributable to loyalty reward points beginning in the fourth quarter of 2010. Generally, the impact of this deferral is not expected to be significant to total Retail service revenues in 2010 or 2011.

***Inbound roaming revenues***

The decrease in Inbound roaming revenues in 2010 was primarily due to a decline in roaming revenues from the combined entity of Verizon Wireless (Verizon) and Alltel Corporation (Alltel). In January 2009, Verizon acquired Alltel. As a result of this transaction, the network footprints of Verizon and Alltel were combined. This has resulted in a decrease in inbound roaming revenues for U.S. Cellular, since the combined Verizon and Alltel entity has reduced its usage of U.S. Cellular's network in certain coverage areas that were used by Verizon and Alltel as separate entities. U.S. Cellular anticipates that inbound roaming revenues for the full year 2010 will be flat to slightly higher than the prior year due to the positive impact of increasing minutes of use and increasing data usage from U.S. Cellular's roaming partners, partially offset by the negative impact of decreasing rates per minute or kilobyte of use.

***Equipment sales revenues***



Equipment sales revenues include revenues from sales of handsets and related accessories to both new and existing customers, as well as revenues from sales of handsets and accessories to agents. All equipment sales revenues are recorded net of anticipated rebates.

U.S. Cellular's customer retention efforts include offering new smartphones and premium handsets at discounted prices to existing customers as the expiration date of the customer's service contract approaches. U.S. Cellular also continues to sell handsets to agents; this practice enables U.S. Cellular to provide better control over the quality of handsets sold to its customers, establish roaming preferences and earn quantity discounts from handset manufacturers which are passed along to agents. U.S. Cellular anticipates that it will continue to sell handsets to agents in the future.

The decrease in 2010 equipment sales revenues was driven by declines of 6% in average revenue per handset sold and 5% in total handsets sold. Average revenue per handset sold declined due to aggressive promotional pricing across all categories of handsets.

## **Operating Expenses**

### *System operations expenses (excluding Depreciation, amortization and accretion)*

System operations expenses (excluding Depreciation, amortization, and accretion) include charges from wireline telecommunications service providers for U.S. Cellular's customers' use of their facilities, costs related to local interconnection to the wireline network, charges for maintenance of U.S. Cellular's network, long-distance charges, outbound roaming expenses and payments to third party data product and platform developers.

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Key components of the overall increase in System operations expenses were as follows:

- Maintenance, utility and cell site expenses increased \$20.2 million, or 8%, driven primarily by an increase in the number of cell sites within U.S. Cellular's network. The number of cell sites totaled 7,524 at September 30, 2010 and 7,161 at September 30, 2009, as U.S. Cellular continued to grow by expanding and enhancing coverage in its existing markets.
- Customer usage expenses increased \$17.9 million, or 9%, primarily due to an increase in data usage.

U.S. Cellular expects total System operations expenses to increase on a year-over-year basis in the foreseeable future, driven by the continued growth in cell sites and data usage.

*Cost of equipment sold*

Cost of equipment sold decreased in 2010 primarily due to a 5% decline in total handsets sold partially offset by a slight increase in the average cost per handset.

*Selling, general and administrative expenses*

Selling, general and administrative expenses include salaries, commissions and expenses of field sales and retail personnel and facilities; telesales department salaries and expenses; agent commissions and related expenses; corporate marketing and merchandise management; and advertising expenses. Selling, general and administrative expenses also include bad debts expense, costs of operating customer care centers and corporate expenses.

Key components of the net increase in Selling, general and administrative expenses in 2010 were as follows:

- Selling and marketing expenses increased by \$3.3 million primarily due to higher sales related expenses, partially offset by lower advertising expense and lower commissions expense reflecting fewer eligible customer

additions.

- General and administrative expenses increased \$44.2 million due to higher USF contributions (most of the USF contribution expenses are offset by revenues for amounts passed through to customers as discussed above); higher costs related to marketing initiatives and investments in multi-year initiatives for business support systems as described in the Overview section, and general employee related expenses. These increases were partially offset by a reduction in bad debts expense.

U.S. Cellular expects Selling, general and administrative expenses to increase on a year-over-year basis in the foreseeable future driven primarily by increases in expenses associated with acquiring, serving and retaining customers, as well as costs related to its multi-year initiatives.

#### ***Depreciation, amortization and accretion***

Depreciation, amortization and accretion increased primarily due to an increase in the gross property, plant and equipment balances from 2009 to 2010.

See [Financial Resources](#) and [Liquidity and Capital Resources](#) for a discussion of U.S. Cellular's capital expenditures.

Table of Contents**RESULTS OF OPERATIONS WIRELINE**

TDS Telecom served 1,112,500 equivalent access lines at September 30, 2010, a net decrease of 24,300 lines from the 1,136,800 equivalent access lines served at September 30, 2009.

TDS Telecom provides services through its ILEC and CLEC operations. An ILEC is an incumbent local exchange telephone company that formerly had the exclusive right and responsibility to provide local transmission and switching services in its designated service territory. CLEC depicts companies that enter the operating areas of incumbent local exchange telephone companies to offer local exchange and other telephone services.

On March 19, 2010, TDS acquired 100% interest in a managed services company which provides colocation, dedicated hosting, Internet and virtual computing services. The operations of the managed services company is included in the ILEC operations from the date of acquisition.

The following table summarizes operating data for TDS Telecom's ILEC and CLEC operations:

<b>As of September 30,</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>
<b>ILEC</b>			
Equivalent access lines	773,800	772,700	1,100
Physical access lines	517,000	539,400	(22,400)
High-speed data customers	225,400	202,100	23,300
Long-distance customers	370,800	356,500	14,300
<b>CLEC</b>			
Equivalent access lines	338,700	364,100	(25,400)
High-speed data customers	33,900	37,600	(3,700)

An ILEC company acquired on November 30, 2009 increased the equivalent and physical access line counts at September 30, 2010 by 7,700 and 5,700, respectively.

The decline in CLEC equivalent access lines from 2009 to 2010 is primarily the result of attrition in residential customers due to a shift in TDS Telecom's CLEC strategy to focus on serving primarily a commercial subscriber base.

**TDS Telecom****Components of Operating Income**

Nine months ended September 30,	2010	2009	Change	Percentage Change
<b>(Dollars in thousands)</b>				
Operating revenues				
ILEC revenues	\$ 461,800	\$ 448,054	\$ 13,746	3%
CLEC revenues	142,106	150,435	(8,329)	(6)%
Intra-company elimination	(7,165)	(6,685)	(480)	(7)%
TDS Telecom operating revenues	596,741	591,804	4,937	1%
Operating expenses				
ILEC expenses	388,490	382,484	6,006	2%
CLEC expenses	140,401	148,307	(7,906)	(5)%
Intra-company elimination	(7,165)	(6,685)	(480)	(7)%
TDS Telecom operating expenses	521,726	524,106	(2,380)	
 TDS Telecom operating income	 \$ 75,015	 \$ 67,698	 \$ 7,317	 11%

Table of Contents**ILEC Operations****Components of Operating Income**

<b>Nine months ended September 30, (Dollars in thousands)</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>Percentage Change</b>
Voice revenues	\$ 135,659	\$ 141,919	\$ (6,260)	(4)%
Data revenues	92,764	76,717	16,047	21%
Network access revenues	203,925	201,912	2,013	1%
Miscellaneous revenues	29,452	27,506	1,946	7%
Total operating revenues	461,800	448,054	13,746	3%
Cost of services and products (excluding Depreciation, amortization and accretion reported below)	147,614	146,442	1,172	1%
Selling, general and administrative expenses	129,099	127,509	1,590	1%
Depreciation, amortization and accretion	111,433	107,040	4,393	4%
Loss on asset disposals, net	344	1,493	(1,149)	(77)%
Total operating expenses	388,490	382,484	6,006	2%
Total operating income	\$ 73,310	\$ 65,570	\$ 7,740	12%

**Operating Revenues**

*Voice revenues* (charges for providing local telephone exchange and long-distance services).

The decrease in Voice revenues in 2010 was primarily due to a 6% decline in average physical access lines in service (excluding the impact of acquisitions) which negatively impacted local service revenues by \$6.4 million. Additionally, local service and long-distance revenues decreased by \$2.8 million attributed to bundled offerings, which encourage customers to take multiple products such as local service, long-distance, advanced calling features and voice messaging services at a reduced price. Acquisitions increased Voice revenues \$1.1 million in 2010.

**Data revenues** (charges for providing Internet and other data related services, including revenue from a managed service business).

The increase in Data revenues in 2010 was due to a 13% growth in average high-speed data customers which accounted for increased revenues of \$9.0 million. Decreases in dial-up customers decreased Data revenues \$2.3 million. Acquisitions increased Data revenues \$7.4 million in 2010.

**Network access revenues** (compensation from other telecommunication carriers for carrying long-distance traffic on TDS Telecom's local telephone network and for local interconnection).

Network access revenues decreased due to a decline in minutes of use. This decline was mostly offset by an increase in revenues received through inter-state regulatory recovery mechanisms. Acquisitions increased Network access revenues \$1.8 million in 2010.

**Miscellaneous revenues** (charges for leasing, selling, installing and maintaining customer premise equipment and reselling direct broadcast satellite service as well as for other miscellaneous services).

Miscellaneous revenues increased \$3.3 million due to satellite and video revenues which were partially offset by a \$1.3 million decrease in business sales.

Table of Contents**Operating Expenses***Cost of services and products (excluding Depreciation, amortization and accretion)*

Labor related costs decreased \$4.6 million due to workforce reduction initiatives. Acquisitions increased cost of services and products \$4.3 million in 2010.

*Selling, general and administrative expenses*

As a result of a workforce reduction, employee costs decreased \$5.1 million. Acquisitions increased Selling, general and administrative expenses \$3.8 million in 2010. Other Selling, general and administrative expenses increased slightly due to higher Universal Service Funding rates offset by an improvement in bad debt expense.

*Depreciation, amortization and accretion expense*

Acquisitions increased Depreciation, amortization and accretion expense \$3.3 million in 2010.

**CLEC Operations****Components of Operating Income**

Nine months ended September 30, (Dollars in thousands)	2010	2009	Change	Percentage Change
Retail revenues	\$ 127,300	\$ 135,014	\$ (7,714)	(6)%
Wholesale revenues	14,806	15,421	(615)	(4)%
Total operating revenues	142,106	150,435	(8,329)	(6)%

Cost of services and products (excluding  
Depreciation, amortization and accretion



reported below)	73,469	79,127	(5,658)	(7)%
Selling, general and administrative expenses	47,825	50,689	(2,864)	(6)%
Depreciation, amortization and accretion	18,784	18,232	552	3%
Loss on asset disposals, net	323	259	64	25%
Total operating expenses	140,401	148,307	(7,906)	(5)%
Total operating income	\$ 1,705	\$ 2,128	\$ (423)	(20)%

## Operating Revenues

**Retail revenues** (charges to CLEC customers for the provision of direct telecommunication services).

Average CLEC equivalent access lines in service decreased 8% from 2009, decreasing retail revenues \$10.3 million. Residential equivalent access lines decreased 24% as the CLEC operation continues to implement its strategic shift towards serving primarily a commercial customer base. Average commercial equivalent access lines declined 3% from 2009 to 2010, however, an increase in average revenue per commercial customer resulted in higher revenues of \$2.8 million in 2010.

**Wholesale revenues** (charges to other carriers for utilizing TDS Telecom's network infrastructure).

The decline in wholesale revenues in 2010 was primarily driven by a 21% reduction in minutes of use partially offset by an increase in special access revenues.

## Operating Expenses

**Cost of services and products (excluding Depreciation, amortization and accretion)**

Cost of services and products decreased in 2010 due to a \$5.0 million reduction in purchased network services, primarily caused by the decrease in the residential customer base.

**Selling, general and administrative expenses**

Selling, general and administrative expenses decreased in 2010 primarily due to reductions in employee related expenses and reductions in sales and marketing promotions.

Table of Contents**Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009****RESULTS OF OPERATIONS CONSOLIDATED**

<b>Three Months Ended September 30, (Dollars in thousands, except per share amounts)</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>Percentage Change</b>
<b>Operating revenues</b>				
U.S. Cellular	\$ 1,060,781	\$ 1,057,295	\$ 3,486	
TDS Telecom	202,030	196,542	5,488	3%
All other (1)	3,605	3,900	(295)	(8)%
Total operating revenues	1,266,416	1,257,737	8,679	1%
<b>Operating expenses</b>				
U.S. Cellular	1,000,948	997,747	3,201	
TDS Telecom	177,447	174,320	3,127	2%
All other (1)	4,860	6,151	(1,291)	(21)%
Total operating expenses	1,183,255	1,178,218	5,037	
<b>Operating income (loss)</b>				
U.S. Cellular	59,833	59,548	285	
TDS Telecom	24,583	22,222	2,361	11%
All other (1)	(1,255)	(2,251)	996	44%
Total operating income	83,161	79,519	3,642	5%
<b>Other income and (expenses)</b>				
Equity in earnings of unconsolidated entities	24,147	23,334	813	3%
Interest and dividend income	2,785	3,461	(676)	(20)%
Interest expense	(28,297)	(30,854)	2,557	8%
Other, net	(438)	1,030	(1,468)	>(100)%
Total investment and other income (expenses)	(1,803)	(3,029)	1,226	40%
<b>Income before income taxes</b>	81,358	76,490	4,868	6%
Income tax expense	28,775	28,331	444	2%
<b>Net income</b>	52,583	48,159	4,424	9%
Less: Net income attributable to noncontrolling interests, net of tax	(11,958)	(11,384)	(574)	(5)%

<b>Net income attributable to TDS shareholders</b>		40,625		36,775		3,850		10%
Preferred dividend requirement		(12)		(13)		1		8%
<b>Net income available to common shareholders</b>	\$	40,613	\$	36,762	\$	3,851		10%
<b>Basic earnings per share attributable to TDS shareholders</b>	\$	0.39	\$	0.34	\$	0.05		15%
<b>Diluted earnings per share attributable to TDS shareholders</b>	\$	0.38	\$	0.34	\$	0.04		12%

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(1) Consists of non-reportable segment, corporate operations and intercompany eliminations.

### Operating Revenues and Expenses

See Results of Operations Wireless and Results of Operations Wireline below for factors that affected consolidated Operating Revenues and Expenses.

### Equity in earnings of unconsolidated entities

TDS investment in the LA Partnership contributed \$16.1 million and \$15.5 million to Equity in earnings from unconsolidated entities in 2010 and 2009, respectively.

### Interest expense

The decrease in interest expense in 2010 was primarily a result of a \$2.8 million decrease in interest due to the redemption of U.S. Cellular's 8.75% senior notes in December 2009.



System operations (excluding Depreciation, amortization and accretion reported below)	218,021	205,611	12,410	6%
Cost of equipment sold	189,291	189,354	(63)	
Selling, general and administrative	446,938	454,645	(7,707)	(2)%
Depreciation, amortization and accretion	144,717	146,052	(1,335)	(1)%
Loss on asset disposals, net	1,981	2,085	(104)	(5)%
Total operating expenses	1,000,948	997,747	3,201	
Operating income	\$ 59,833	\$ 59,548	285	

## Operating Revenues

### *Retail service revenues*

Retail service revenues were essentially flat in 2010 compared to 2009 as an increase in revenues from data products and services offset a decline in revenues from voice services.

- The average number of customers decreased to 6,124,000 in 2010 from 6,138,000 in 2009.
- Average monthly retail service revenue per customer increased less than 1% to \$47.12 in 2010 compared to \$46.97 in 2009. The net increase resulted primarily from growth in revenues from data products and services and revenues related to regulatory cost recovery, which together offset a decline in revenues from voice

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services. The increase in average monthly retail service revenue per customer also reflects the impact of a reduction in the number of lower revenue reseller customers.

Revenues from voice services declined year-over-year primarily due to a reduction in average voice revenue per customer. The reduction in average voice revenue per customer reflects industry competition which has resulted in lower pricing overall as well as growth in family plans and service plans with enhanced coverage areas and value (such as free incoming calls, free mobile-to-mobile and unlimited minutes).

Revenues from data products and services totaled \$228.9 million in 2010 and \$174.3 million in 2009, and represented 23% of total service revenues in 2010 compared to 18% of total service revenues in 2009. Such growth, which positively impacted average monthly retail service revenue per customer, reflected customers' continued and increasing usage of U.S. Cellular's text, picture, and video messaging services, **easyedge**<sup>SM</sup> service and applications, premium mobile Internet services, smartphone handsets and services, and modems.

Revenues related to regulatory cost recovery increased due to an increase in the USF contribution rates established by the FCC.

***Inbound roaming revenues***

The increase in Inbound roaming revenues in 2010 was primarily due to an increase in data roaming.

***Other revenues***

In August 2010, the Universal Service Administrative Company received orders from the FCC to modify the interim cap imposed in August 2008 on high-cost USF support. The adjusted interim cap reduced U.S. Cellular's ETC revenues for the period from August 2008 through August 2010 on a retroactive basis by \$5.4 million. This reduction to ETC revenues was recorded in the quarter ended September 30, 2010.

***Equipment sales revenues***

The increase in 2010 Equipment sales revenues was driven by an increase in average revenue per handset sold of 12% due to a shift in mix of handsets purchased by customers to handsets with expanded capabilities, such as smartphones. This was partially offset by a 7% decline in the total number of handsets sold.

## **Operating Expenses**

### ***System operations expenses (excluding Depreciation, amortization and accretion)***

Key components of the overall increase in System operations expenses were as follows:

- Maintenance, utility and cell site expenses increased \$6.1 million, or 7%, driven primarily by an increase in the number of cell sites within U.S. Cellular's network.
- Customer usage expenses on U.S. Cellular's systems increased \$7.5 million, or 11%, primarily due to an increase in data usage.

### ***Cost of equipment sold***

Cost of equipment sold remained essentially flat in 2010 compared to 2009 due to a decrease of 7% in total handsets sold, partially offset by a shift in the mix of handsets purchased by customers to handsets with expanded capabilities, such as smartphones, which resulted in an increase of 4% in average cost per handset sold.

### ***Selling, general and administrative expenses***

Key components of the net decrease in Selling, general and administrative expenses were as follows:

- Selling and marketing expenses increased by \$3.2 million primarily due to higher sales related expenses, an increase in advertising expense, and partially offset by lower commissions expense reflecting fewer eligible customer additions.



- General and administrative expenses decreased \$10.9 million due to a decrease in bad debts expense and lower employee related expenses. Partially offsetting these decreases were higher costs related to investments in marketing initiatives and multi-year initiatives for business support systems as described in the Overview section and higher USF contributions (most of the USF contribution expenses are offset by revenues for amounts passed through to customers as discussed above).

Table of Contents**RESULTS OF OPERATIONS WIRELINE****TDS Telecom****Components of Operating Income**

				<b>Percentage</b>
<b>Three months ended September 30, (Dollars in thousands)</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>Change</b>
Operating revenues				
ILEC revenues	\$ 157,386	\$ 149,659	\$ 7,727	5%
CLEC revenues	47,038	49,153	(2,115)	(4)%
Intra-company elimination	(2,394)	(2,270)	(124)	(5)%
TDS Telecom operating revenues	202,030	196,542	5,488	3%
Operating expenses				
ILEC expenses	132,855	128,473	4,382	3%
CLEC expenses	46,986	48,117	(1,131)	(2)%
Intra-company elimination	(2,394)	(2,270)	(124)	(5)%
TDS Telecom operating expenses	177,447	174,320	3,127	2%
TDS Telecom operating income	\$ 24,583	\$ 22,222	\$ 2,361	11%

**ILEC Operations****Components of Operating Income**

				<b>Percentage</b>
<b>Three months ended September 30, (Dollars in thousands)</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>Change</b>
Voice revenues	\$ 45,363	\$ 46,462	\$ (1,099)	(2)%

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Data revenues	32,473	26,166	6,307	24%
Network access revenues	69,032	66,963	2,069	3%
Miscellaneous revenues	10,518	10,068	450	4%
Total operating revenues	157,386	149,659	7,727	5%
Cost of services and products (excluding Depreciation, amortization and accretion reported below)	51,820	50,352	1,468	3%
Selling, general and administrative expenses	43,195	41,397	1,798	4%
Depreciation, amortization and accretion	37,528	35,652	1,876	5%
Loss on asset disposals, net	312	1,072	(760)	(71)%
Total operating expenses	132,855	128,473	4,382	3%
Total operating income	\$ 24,531	\$ 21,186	\$ 3,345	16%

**Operating Revenues**

*Voice revenues*

The decrease in Voice revenues in 2010 was primarily due to a 5% decline in average physical access lines in service (excluding the impact of a 2009 acquisition).

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*Data revenues*

The increase in Data revenues in 2010 was due to the 11% growth in average high-speed data customers which accounted for increased revenues of \$2.6 million. Acquisitions increased Data revenues \$3.4 million.

*Network access revenues*

Increases in revenues received through inter-state regulatory recovery mechanisms were slightly greater than decreases in revenues caused by a 3% decline in intra-state minutes of use. In 2010, \$0.9 million of access charge revenues were recognized due to settlements with various Interexchange carriers.

*Miscellaneous revenues*

Miscellaneous revenues increased primarily due to satellite and video revenues.

**Operating Expenses**

*Cost of services and products (excluding Depreciation, amortization and accretion)*

Labor related costs decreased \$2.0 million due to workforce reduction initiatives. Acquisitions increased Cost of services and products \$1.8 million in 2010.

*Selling, general and administrative expenses*

Acquisitions increased Selling, general and administrative expenses \$1.7 million in 2010.

***Depreciation, amortization and accretion expense***

Depreciation, amortization and accretion expense increased \$1.4 million in 2010 as a result of acquisitions.

**CLEC Operations****Components of Operating Income**

<b>Three months ended September 30, (Dollars in thousands)</b>	<b>2010</b>	<b>2009</b>	<b>Percentage</b>	
			<b>Change</b>	<b>Change</b>
Retail revenues	\$ 42,146	\$ 44,389	\$ (2,243)	(5)%
Wholesale revenues	4,892	4,764	128	3%
Total operating revenues	47,038	49,153	(2,115)	(4)%
Cost of services and products (excluding Depreciation, amortization and accretion reported below)	24,482	26,008	(1,526)	(6)%
Selling, general and administrative expenses	16,309	15,952	357	2%
Depreciation, amortization and accretion	6,117	6,094	23	
Loss on asset disposals, net	78	63	15	24%
Total operating expenses	46,986	48,117	(1,131)	(2)%
Total operating income	\$ 52	\$ 1,036	\$ (984)	(95)%

**Operating Revenues*****Retail revenues***

Average CLEC equivalent access lines in service decreased 7% in 2010 compared to 2009, which resulted in a decrease in retail revenues of \$3.1 million. Average residential equivalent access lines decreased 24% as the CLEC operation continues to



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implement its strategic shift towards serving primarily a commercial customer base. The average equivalent access lines related to commercial customers declined 3%. Partially offsetting this decline was an increase in the average revenue per commercial customer which resulted in higher revenues of \$0.9 million in 2010.

***Wholesale revenues***

The increase in wholesale revenues in 2010 was primarily driven by an increase in special access revenues partially offset by a 12% reduction in switched minutes of use.

**Operating Expenses**

***Cost of services and products (excluding Depreciation, amortization and accretion)***

The decrease in Cost of services and products in 2010 was caused by the reduction of purchased network services primarily caused by the declining residential customer base.

***Selling, general and administrative expenses***

Selling, general and administrative expenses increased in 2010 primarily due to an increase in employee related costs.

**RECENT ACCOUNTING PRONOUNCEMENTS**

Recent accounting pronouncements are not expected to have a significant effect on TDS' financial condition or results of operations except as described in Note 3 - Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements.

**FINANCIAL RESOURCES**

TDS operates a capital and marketing intensive business. TDS utilizes cash from its operating activities, cash proceeds from divestitures and dispositions of investments, short-term credit facilities, long-term debt financing and cash on hand to fund its acquisitions (including licenses), construction costs, operating expenses and share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions, capital expenditures and other factors. The table below and the following discussion in this Financial Resources section summarize TDS cash flow activities in the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009.

	<b>2010</b>		<b>2009</b>
<b>(Dollars in thousands)</b>			
Cash flows from (used in):			
Operating activities	\$ 764,780	\$	799,951
Investing activities	(905,706)		(571,556)
Financing activities	(140,058)		(227,545)
Net increase (decrease) in cash and cash equivalents	\$ (280,984)	\$	850

**Cash Flows from Operating Activities**

The following table presents Adjusted OIBDA and is included for purposes of analyzing operating activities. TDS believes this measure provides useful information to investors regarding TDS financial condition and results of operations because it highlights certain key cash and non-cash items and their impacts on cash flows from operating activities:

	<b>2010</b>		<b>2009</b>
<b>(Dollars in thousands)</b>			
Operating income	\$ 271,538	\$	372,766
Non-cash items			
Depreciation, amortization and accretion	570,619		557,218
Loss on asset disposals, net	9,023		10,462
Adjusted OIBDA (1) (2)	\$ 851,180	\$	940,446

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(1) Adjusted OIBDA is a segment measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. 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. See Note 15 Business Segment Information in the Notes to Consolidated Financial Statements.

(2) Adjusted OIBDA excludes the net gain or loss on asset disposals and loss on impairment of assets (if any), in order to show operating results on a more comparable basis from period to period. TDS does not intend to imply that any of such amounts that are excluded are non-recurring, infrequent or unusual and, accordingly, they may be incurred in the future.

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Cash flows from operating activities in 2010 were \$764.8 million, a decrease of \$35.2 million from 2009. Significant changes included the following:

- Adjusted OIBDA, as shown in the table above, decreased by \$89.2 million primarily due to a decrease in U.S. Cellular operating income. See discussion in the Results of Operations Wireless for factors that affected U.S. Cellular operating income.
- In 2009, a \$38.0 million deposit was paid to the Internal Revenue Service to eliminate any potential interest expense subsequent to the deposit. The deposit was recorded as a cash outflow in Change in other assets and liabilities in the Consolidated Statement of Cash Flows in 2009.
- Income tax payments, net of refunds, increased by \$67.7 million to \$98.1 million in 2010 from \$30.4 million in 2009. This increase primarily relates to tax payments made in 2010 related to the 2009 tax year and increased tax payments made before the bonus depreciation deduction for 2010 was enacted in September 2010. TDS expects the enactment of bonus depreciation in September 2010 to reduce current income tax expense for the year ending December 31, 2010 and income taxes payable attributable to such year by approximately \$105 million. The impact of the enactment of bonus depreciation in September 2010 decreased Accrued taxes (resulting in Prepaid income taxes) and increased Net deferred income tax liability (noncurrent) by \$79 million at September 30, 2010.
- Changes in accounts receivable required \$48.9 million and \$107.3 million in 2010 and 2009, respectively, causing a year-over-year increase in cash flows of \$58.4 million. Changes in inventory provided \$32.6 million in 2010 and required \$3.6 million in 2009, resulting in a \$36.2 million increase in cash inflows. Both the accounts receivable and inventory balances can fluctuate significantly based on the timing of wireless promotions.
- Changes in accounts payable required \$49.0 million and \$29.4 million in 2010 and 2009, respectively, causing a year-over-year decrease in cash flows of \$19.6 million. Changes in accounts payable were primarily driven by payment timing differences.

## **Cash Flows from Investing Activities**

TDS makes substantial investments to acquire wireless licenses and properties and to construct, operate and upgrade modern high-quality communications networks and facilities as a basis for creating long-term value for shareholders.

In recent years, rapid changes in technology and new opportunities have required substantial investments in potentially revenue enhancing and cost-reducing upgrades to TDS networks.

Cash used for property, plant and equipment and system development expenditures totaled \$486.1 million in 2010 and \$450.6 million in 2009. These expenditures were made to provide for customer and usage growth, to upgrade service and to take advantage of service-enhancing and cost-reducing technological developments in order to maintain competitive services.

- U.S. Cellular's capital expenditures totaled \$379.7 million in 2010 and \$357.8 million in 2009 representing expenditures to construct cell sites, increase capacity in existing cell sites and switches, upgrade technology including the overlay of 3G technology in certain markets, develop new and enhance existing office systems, and construct new and remodel existing retail stores.
- TDS Telecom's capital expenditures for its ILEC operations totaled \$81.3 million in 2010 and \$71.4 million in 2009 representing expenditures to upgrade plant and equipment to provide enhanced services. TDS Telecom's capital expenditures for its CLEC operations totaled \$14.1 million in 2010 and \$15.4 million in 2009 for switching and other network facilities.
- Corporate and other capital expenditures totaled \$11.0 million in 2010 and \$6.0 million in 2009.

Cash payments for acquisitions in 2010 and 2009 were as follows:

<b><u>Cash Payment for Acquisitions (1)</u></b> <b>(Dollars in thousands)</b>	<b>2010</b>	<b>2009</b>
U.S. Cellular licenses	\$ 10,501	\$ 12,250
TDS Telecom business	17,763	2,701
Other		291
<b>Total</b>	<b>\$ 28,264</b>	<b>\$ 15,242</b>

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(1) Cash amounts paid for the acquisitions may differ from the purchase price due to cash acquired in the transactions and the timing of cash payments related to the respective transactions.

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In 2010, TDS invested \$433.8 million in U.S. treasuries and corporate notes with maturities of greater than three months from the acquisition date. In 2009, \$109.1 million of certificates of deposit ( CDs ) were purchased. TDS also realized proceeds of \$40.8 in 2010 related to the maturities of its investments in U.S. treasuries, corporate notes, and CDs.

**Cash Flows from Financing Activities**

In 2010, TDS repurchased Special Common Shares at an aggregate cost of \$50.5 million. In 2009, TDS repurchased Common and Special Common Shares at an aggregate cost of \$160.0 million. A total of \$151.0 million was paid in cash before September 30, 2009 and \$9.0 million was paid in October 2009. In addition, in January 2009 TDS paid \$2.0 million for the fourth quarter 2008 share repurchases. Payments for repurchases of U.S. Cellular Common Shares required \$40.5 million in 2010 and \$24.3 million in 2009. See Note 12 TDS and U.S. Cellular Share Repurchases in the Notes to Consolidated Financial Statements for additional information related to these transactions.

**Free Cash Flow**

The following table presents Free cash flow. TDS believes that Free cash flow as reported by TDS may be useful to investors and other users of its financial information in evaluating the amount of cash generated by business operations, after capital expenditures.

<b>(Dollars in thousands)</b>	<b>2010</b>	<b>2009</b>
Cash flows from operating activities	\$ 764,780	\$ 799,951
Capital expenditures	(486,138)	(450,594)
Free cash flow (1)	\$ 278,642	\$ 349,357

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(1) Free cash flow is defined as Cash flows from operating activities minus Capital expenditures. Free cash flow is a non-GAAP financial measure.

See Cash flows from Operating Activities and Cash flows from Investing Activities for details on the changes to the components of Free cash flow.

## **LIQUIDITY AND CAPITAL RESOURCES**

At September 30, 2010, TDS had Cash and cash equivalents, Short-term investments and Long-term investments totaling \$900.5 million, as discussed in more detail below. TDS believes that existing cash and investments balances, expected cash flows from operating activities and funds available under its revolving credit facilities provide substantial liquidity and financial flexibility for TDS to meet its normal financing needs (including working capital, construction and development expenditures and share repurchases under approved programs) for the foreseeable future. In addition, TDS and its subsidiaries may have access to public and private capital markets to help meet their financing needs.

Consumer spending significantly impacts TDS operations and performance. Factors that influence levels of consumer spending include: unemployment rates, increases in fuel and other energy costs, conditions in residential real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors. Changes in these and other economic factors could have a material adverse effect on demand for TDS products and services and on TDS financial condition and results of operations.

TDS cannot provide assurances that circumstances that could have a material adverse effect on its liquidity or capital resources will not occur. Economic conditions, changes in financial markets or other factors could restrict TDS liquidity and availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development, acquisition or share repurchase programs. Such reductions could have a material adverse effect on TDS business, financial condition or results of operations.

### **Cash and Cash Equivalents**

At September 30, 2010, TDS had \$390.0 million in cash and cash equivalents, which included cash and short-term, highly liquid

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investments with original maturities of three months or less. The primary objective of TDS' cash and cash equivalents investment activities is to preserve principal. At September 30, 2010, the majority of TDS' cash and cash equivalents was held in money market funds that invest exclusively in U.S. Treasury securities with original maturities of less than three months or in repurchase agreements fully collateralized by such obligations. TDS monitors the financial viability of the money market funds and direct investments in which it invests and believes that the credit risk associated with these investments is low.

### **Short-term and Long-term Investments**

At September 30, 2010, TDS had \$389.1 million in Short-term investments and \$121.4 million in Long-term investments. Short-term and Long-term investments consist of Certificates of deposit (Short-term only), U.S. treasuries and corporate notes, all of which are designated as held-to-maturity investments, and are recorded at amortized cost in the Consolidated Balance Sheet. The corporate notes are guaranteed by the Federal Deposit Insurance Corporation. For these investments, TDS' objective is to earn a higher rate of return on cash balances that are not anticipated to be required to meet liquidity needs in the foreseeable future, while maintaining a low level of investment risk. See Note 4 Fair Value Measurements in the Notes to Consolidated Financial Statements for additional details on Short-term and Long-term investments.

### **Revolving Credit Facilities**

TDS has a \$400 million and U.S. Cellular has a \$300 million revolving credit facility available for general corporate purposes. At September 30, 2010, there were no outstanding borrowings and \$3.4 million of outstanding letters of credit, leaving \$396.6 million available for use under the TDS revolving credit facility, and there were no outstanding borrowings and \$0.2 million of outstanding letters of credit, leaving \$299.8 million available for use under the U.S. Cellular revolving credit facility. In connection with U.S. Cellular's revolving credit facility, TDS and U.S. Cellular entered into a subordination agreement dated June 30, 2009 together with the administrative agent for the lenders under U.S. Cellular's revolving credit facility. At September 30, 2010, no U.S. Cellular debt was subordinated pursuant to this subordination agreement.

TDS' and U.S. Cellular's interest cost on their revolving credit facilities is subject to increase if their current credit ratings from nationally recognized credit rating agencies are lowered, and is subject to decrease if the ratings are raised. The credit facilities would not cease to be available nor would the maturity date accelerate solely as a result of a downgrade in TDS' or U.S. Cellular's credit rating. However, a downgrade in TDS' or U.S. Cellular's credit rating could adversely affect their ability to renew the credit facilities or obtain access to other credit facilities in the future.

During the third quarter of 2010, TDS and U.S. Cellular's credit ratings were downgraded from BBB+ to BBB by Fitch Ratings. As of September 30, 2010, TDS and U.S. Cellular's credit ratings from the nationally recognized credit rating agencies including Fitch Ratings remained at investment grade.

The continued availability of the revolving credit facilities requires TDS and U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing. TDS and U.S. Cellular believe they were in compliance as of September 30, 2010 with all of the covenants and requirements set forth in their revolving credit facilities.

TDS and U.S. Cellular may seek to renegotiate their revolving credit facilities prior to their expiration dates (June 2012) if they are able to obtain more favorable terms.

### **Long-Term Financing**

TDS and its subsidiaries had the following public debt outstanding as of September 30, 2010:

#### *Telephone and Data Systems, Inc. (Parent):*

- \$116,250,000 aggregate principal amount of 6.625% senior notes due March 31, 2045. TDS may redeem such notes, in whole or in part, at any time on or after March 31, 2010, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest.
- \$500,000,000 aggregate principal amount of 7.6% Series A notes due December 1, 2041. TDS may redeem the notes, in whole or in part, at any time on or after December 5, 2006, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest.

#### *Subsidiaries U.S. Cellular:*

- \$544,000,000 aggregate principal amount of 6.7% senior notes due December 15, 2033. U.S. Cellular may redeem such





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notes, in whole or in part, at any time prior to maturity at a redemption price equal to the greater of (a) 100% of the principal amount of such notes, plus accrued but unpaid interest, or (b) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semi-annual basis at the Treasury Rate plus 30 basis points.

- \$330,000,000 aggregate principal amount of 7.5% senior notes due June 15, 2034. U.S. Cellular may redeem the notes, in whole or in part, at any time on or after June 17, 2009, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest.

TDS and its subsidiaries' long-term debt and indentures do not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in TDS' credit rating. However, a downgrade in TDS' credit rating could adversely affect its ability to obtain long-term debt financing in the future. TDS believes it and its subsidiaries were in compliance as of September 30, 2010 with all covenants and other requirements set forth in long-term debt indentures. TDS and U.S. Cellular have not failed to make nor do they expect to fail to make any scheduled payment of principal or interest under such indentures.

The long-term debt principal payments due for the remainder of 2010 and the next four years represent less than 1% of the total long-term debt obligation at September 30, 2010. Refer to Market Risk - Long-Term Debt in TDS' Form 10-K for the year ended December 31, 2009 for additional information regarding required principal payments and the weighted average interest rates related to TDS' long-term debt.

TDS, at its discretion, may from time to time seek to retire or purchase its outstanding debt through cash purchases and/or exchanges for other securities, in open market purchases, privately negotiated transactions, tender offers, exchange offers or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

TDS and U.S. Cellular each have effective shelf registration statements on Form S-3 that they can use to issue senior debt securities that can be used for general corporate purposes, including to finance the redemption of any of the above existing debt. The TDS shelf registration statement is an automatic shelf registration that permits TDS to issue at any time and from time to time, senior debt securities in one or more offerings in an indeterminate amount. The U.S. Cellular shelf registration statement permits U.S. Cellular to issue at any time and from time to time, senior debt securities in one or more offerings up to an aggregate principal amount of \$500,000,000. The ability of TDS or U.S. Cellular to complete an offering pursuant to such shelf registration statements is subject to market conditions and other factors at the time.

## **Capital Expenditures**

U.S. Cellular's capital expenditures for 2010 are expected to be approximately \$600 million. These expenditures are expected to be for the following general purposes:

- Expand and enhance U.S. Cellular's coverage in its service areas;
- Provide additional capacity to accommodate increased network usage by current customers;
- Overlay 3G technology in certain markets;
- Enhance U.S. Cellular's retail store network;
- Develop and enhance office systems; and
- Develop new billing and other customer management related systems and platforms.

TDS Telecom's anticipated capital expenditures for 2010 are expected to be approximately \$155 million to upgrade plant and equipment to provide enhanced services.

TDS plans to finance its capital expenditures program for 2010 using cash flows from operating activities, existing cash balances, short-term investments and, if necessary, short-term debt.

## **Acquisitions, Divestitures and Exchanges**

TDS assesses its existing wireless and wireline interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on investment. As part of this strategy, TDS reviews attractive opportunities to acquire additional wireless operating markets, telecommunications companies, wireless spectrum and related service businesses.



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In addition, TDS may seek to divest outright or include in exchanges for other wireless interests those wireless interests that are not strategic to its long-term success. TDS also may be engaged from time to time in negotiations relating to the acquisition, divestiture or exchange of companies, strategic properties or wireless spectrum. In general, TDS may not disclose such transactions until there is a definitive agreement. See Note 7 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for details on significant transactions in 2010.

## **Variable Interest Entities**

TDS consolidates certain entities because they are variable interest entities under accounting principles generally accepted in the United States of America ( GAAP ). See Note 11 Variable Interest Entities (VIEs) in the Notes to Consolidated Financial Statements for the details of these variable interest entities. TDS may elect to make additional capital contributions and/or advances to these variable interest entities in future periods in order to fund their operations.

## **Share Repurchase Programs**

TDS and U.S. Cellular have repurchased and expect to continue to repurchase their Special Common Shares (TDS only) and Common Shares, subject to their repurchase programs. For additional information related to the current TDS and U.S. Cellular repurchase authorizations and repurchases during 2010 and 2009, see Note 12 TDS and U.S. Cellular Share Repurchases in the Notes to Consolidated Financial Statements and Item 2, Unregistered Sales of Equity Securities and Use of Proceeds.

## **Contractual and Other Obligations**

There was no material change between December 31, 2009 and September 30, 2010 to the Contractual and Other Obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in TDS Form 10-K for the year ended December 31, 2009 other than changes in the ordinary course of business and the commitments described below.

On August 17, 2010, U.S. Cellular and Amdocs entered into agreements to develop a Billing and Operational Support System ( B/OSS ). Amdocs will license to U.S. Cellular certain customer order and relationship management, revenue management and billing software relating to the B/OSS.

The implementation of the licensed systems commenced in September 2010, and is expected to take approximately two years to complete. The total estimated amount to be paid to Amdocs with respect to the agreements for delivery of the B/OSS is \$73 million, and is expected to be paid out from August 2010 through September 2012. U.S. Cellular anticipates capitalizing a majority of these costs as Systems development costs and amortizing such capitalized costs over the estimated useful life of the B/OSS system. U.S. Cellular also is committed to purchase maintenance for an aggregate amount of \$36.4 million over a period of seven years, beginning in 2013.

### **Off-Balance Sheet Arrangements**

TDS had no transactions, agreements or other contractual arrangements with unconsolidated entities involving off-balance sheet arrangements, as defined by Securities and Exchange Commission ( SEC ) rules, that had or are reasonably likely to have a material current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

TDS prepares its consolidated financial statements in accordance with GAAP. TDS' significant accounting policies are discussed in detail in Note 1 Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements and TDS' Application of Critical Accounting Policies and Estimates is discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are included in TDS' Form 10-K for the year ended December 31, 2009. Changes to significant accounting policies are discussed in Note 3 Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements of this Form 10-Q. There were no material changes to TDS' application of critical accounting policies and estimates during the nine months ended September 30, 2010.

### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

On September 29, 2010, TDS repurchased 272,323 Special Common Shares at the then current market price on the NYSE for a total price of \$7.7 million, or an average of \$28.24 per Special Common Share including broker fees, from an affiliate of Southeastern Asset Management, Inc. ( SEAM ). SEAM is a shareholder of more than 5% of TDS Special Common Shares.

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See Security Ownership by Certain Beneficial Owners in TDS Notice of Annual Meeting and Proxy Statement dated April 23, 2010, for further information about SEAM and its interest in TDS. This transaction was not solicited by TDS and TDS did not enter into any agreement with SEAM. The transaction was effected by TDS broker pursuant to TDS existing institutional brokerage account agreement on the NYSE pursuant to Rule 10b-18 under the Securities Exchange Act of 1934, as amended.

The Audit Committee of the board of directors is responsible for the review and oversight of all related party transactions, as such term is defined by the rules of the New York Stock Exchange.

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**PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

**SAFE HARBOR CAUTIONARY STATEMENT**

This Form 10-Q, 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 similar expressions are intended to identify these forward-looking statements, but are not the exclusive means of identifying them. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include those set forth below, as more fully discussed under Risk Factors in TDS Form 10-K for the year ended December 31, 2009. However, such factors are not necessarily all of the important factors that could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the forward-looking statements contained in this document. Other unknown or unpredictable factors also could have material adverse effects on future results, performance or achievements. TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. You should carefully consider the Risk Factors in TDS Form 10-K for the year ended December 31, 2009, the following factors and other information contained in, or incorporated by reference into, this Form 10-Q to understand the material risks relating to TDS business.

- *Intense competition in the markets in which TDS operates could adversely affect TDS revenues or increase its costs to compete.*
- *A failure by TDS to successfully execute its business strategy or allocate resources or capital could have an adverse effect on TDS business, financial condition or results of operations.*
- *A failure by TDS service offerings to meet customer expectations could limit TDS ability to attract and retain customers and could have an adverse effect on TDS operations.*
- *TDS systems infrastructure may not be capable of supporting changes in technologies and services expected by customers, which could result in lost customers and revenues.*

- *An inability to obtain or maintain roaming arrangements with other carriers on terms that are acceptable to TDS could have an adverse effect on TDS' business, financial condition or results of operations.*
- *TDS currently receives a significant amount of roaming revenues from its wireless business. As a result of consolidation of 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 existing and new 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.*
- *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.*
- *In the event that the FCC conducts auctions of additional spectrum in the future, TDS is likely to participate in such auctions 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.*
- *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.*
- *Changes in USF funding and/or intercarrier compensation could have a material adverse impact on TDS' financial position or results of operations.*
- *An inability to attract and/or retain management, technical, sales and other personnel could have an adverse effect on TDS' business, financial condition or results of operations.*
- *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.*



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- *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 handsets, 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.*
- *Inability to manage its supply chain or inventory successfully could have an adverse effect on TDS' business, financial condition or results of operations.*
- *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.*
- *Changes in various business factors could have an adverse effect on TDS' business, financial condition or results of operations.*
- *Advances or changes in telecommunications technology, such as Voice over Internet Protocol ( VoIP ), High-Speed Packet Access, WiMAX or Long-Term Evolution ( LTE ), could render certain technologies used by TDS obsolete, could reduce TDS' revenues or could increase its costs of doing business.*
- *TDS could incur higher than anticipated intercarrier compensation costs.*
- *TDS is subject to numerous surcharges and fees from federal, state and local governments, and the applicability and the amount of these fees are subject to great uncertainty.*
- *Changes in TDS' enterprise value, changes in the market supply or demand for wireless licenses 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.*
- *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.*

- *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 wireless revenues could be adversely affected.*
- *TDS' investments in technologies which are unproven may not produce the benefits that TDS expects.*
- *A failure by TDS to complete significant network construction and systems implementation activities as part of its plans to improve the quality, coverage, capabilities and capacity of its network and support systems could have an adverse effect on its operations.*
- *Financial difficulties (including bankruptcy proceedings) of any 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 has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on TDS' financial condition or results of operations.*
- *A failure by TDS to maintain flexible and capable telecommunication networks or information technology, or a material disruption thereof, including breaches of network or information technology security, could have an adverse effect on TDS' business, financial condition or results of operations.*
- *Wars, conflicts, hostilities and/or terrorist attacks or equipment failures, power outages, natural disasters or other events could have an adverse effect on TDS' business, financial condition or results of operations.*
- *The market prices of TDS' Common Shares and Special Common Shares are subject to fluctuations due to a variety of factors.*



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- *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.*
- *Restatements of financial statements by TDS and related matters, including resulting delays in filing periodic reports with the SEC, could have an adverse effect on TDS' business, financial condition or results of operations.*
- *The existence of material weaknesses in the effectiveness of internal control over financial reporting could result in inaccurate financial statements or other disclosures or failure to prevent fraud, which could have an adverse effect on TDS' business, financial condition or results of operations.*
- *Changes in facts or circumstances, including new or additional information that affects the calculation of potential liabilities for contingent obligations under guarantees, indemnities, claims, litigation or otherwise, could require TDS to record charges in excess of amounts accrued in the financial statements, if any, which could have an adverse effect on TDS' financial condition or results of operations.*
- *Early redemptions or repurchases of debt, issuances of debt, changes in operating leases, changes in purchase obligations or other factors or developments could cause the amounts reported under Contractual Obligations in TDS' Management's Discussion and Analysis of Financial Condition and Results of Operations contained in TDS' most recent Annual Report on Form 10-K, as updated by the Quarterly Reports on Form 10-Q, to be different from the amounts actually incurred.*
- *An increase in the amount of TDS' debt could subject TDS to higher interest costs and restrictions on its financing, investing and operating activities and could decrease its net income and cash flows.*
- *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.*

- *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 U.S. Cellular's credit facilities and the indentures governing their senior notes include restrictive covenants that limit their operating flexibility and TDS and U.S. Cellular may be unable to service their debt or to refinance their indebtedness before maturity.*
- *Changes in income tax rates, laws, regulations or rulings, or federal or state tax assessments, could have an adverse effect on TDS financial condition or results of operations.*
- *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.*
- *The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from handsets, wireless data devices and/or cell sites cause harmful health consequences, including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on TDS wireless business, financial condition or results of operations.*
- *Claims of infringement of intellectual property and proprietary rights of others, primarily involving patent infringement claims, could prevent TDS from using necessary technology to provide services or subject TDS to expensive intellectual property litigation or monetary penalties, which could have an adverse effect on TDS' business, financial condition or results of operations.*
- *Certain matters, such as control by the TDS Voting Trust and provisions in the TDS Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of TDS.*
- *Any of the foregoing events or other events could cause 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.*



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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**MARKET RISK**

**Long-term Debt**

Refer to the disclosure under Market Risk – Long-Term Debt in TDS Form 10-K for the year ended December 31, 2009, for additional information regarding required principal payments and the weighted average interest rates related to TDS long-term debt. There have been no material changes to such information since December 31, 2009.

See Note 4 – Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information related to the fair market value of TDS long-term debt as of September 30, 2010.

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**Item 4. 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 Quarterly Report. Based on this evaluation, TDS' Chief Executive Officer and Chief Financial Officer concluded that TDS' disclosure controls and procedures were effective as of September 30, 2010, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in TDS' internal control over financial reporting during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect TDS' internal control over financial reporting.



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**Part II. Other Information**

**Item 1. 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 1A. Risk Factors.**

In addition to the information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in TDS Annual Report on Form 10-K for the year ended December 31, 2009, which could materially affect TDS business, financial condition or future results. The risks described in this Form 10-Q and in TDS Annual Report on Form 10-K may not be the only risks that could affect TDS. Additional unidentified or unrecognized risks and uncertainties could materially adversely affect TDS business, financial condition and/or operating results. In addition, you are referred to the above Management's Discussion and Analysis of Financial Condition and Results of Operations, and in particular the section captioned Overview, for disclosures of certain developments that have occurred since TDS filed its Form 10-K for the year ended December 31, 2009. Subject to the foregoing, TDS has not identified for disclosure any material changes to the risk factors as previously disclosed in TDS Annual Report on Form 10-K for the year ended December 31, 2009.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

In December 2009, TDS completed the authorization made in 2008 for the repurchase of up to \$250 million in aggregate purchase price of both TDS Common and Special Common shares. On November 19, 2009, the Board of Directors of TDS authorized a new \$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 Common and Special Common Shares during the quarter covered by this Form 10-Q.

**TDS PURCHASES OF COMMON SHARES AND SPECIAL COMMON SHARES**

<b>Period</b>	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>
	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b>
July 1 - 31, 2010		\$		
Common				
Special Common	236,000	27.76	236,000	
Total	236,000	27.76	236,000	\$ 209,480,854
August 1 - 31, 2010				
Common				
Special Common	204,600	28.15	204,600	
Total	204,600	28.15	204,600	203,722,056
September 1 - 30, 2010				
Common				
Special Common	264,400	27.01	264,400	
Total	264,400	27.01	264,400	196,580,703
Total for or as of end of the quarter ended September 30, 2010				
Common				
Special Common	705,000	27.59	705,000	
Total	705,000	\$ 27.59	705,000	\$ 196,580,703

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

**Item 5. Other Information.**

The following information is being provided to update prior disclosures made pursuant to the requirements of Form 8-K, Item 2.03 Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of a Registrant.

Neither TDS nor U.S. Cellular borrowed or repaid any amounts under their revolving credit facilities in the third quarter of 2010 and had no borrowings outstanding under their revolving credit facilities as of September 30, 2010.

A description of TDS revolving credit facility is included under Item 1.01 in TDS Current Report on Form 8-K dated June 30, 2009 and is incorporated by reference herein.

A description of U.S. Cellular's revolving credit facility is included under Item 1.01 in U.S. Cellular's Current Report on Form 8-K dated June 30, 2009 and is incorporated by reference herein.

**Item 6. Exhibits**

Exhibit 10.1 Terms of Letter Agreement dated May 3, 2010 between U.S. Cellular and Mary N. Dillon, is hereby incorporated by reference from Exhibit 99.2 to U.S. Cellular's Current Report on Form 8-K dated May 6, 2010

Exhibit 10.2 U.S. Cellular 2005 Long-Term Incentive Plan 2010 Stock Option Award Agreement evidencing U.S. Cellular stock options granted to Mary N. Dillon on June 1, 2010 (with accelerated vesting in the event of termination without cause or for good reason), is hereby incorporated by reference from Exhibit 10.1 to U.S. Cellular's Current Report on Form 8-K dated June 1, 2010

Exhibit 10.3 U.S. Cellular 2005 Long-Term Incentive Plan 2010 Restricted Stock Unit Award Agreement evidencing U.S. Cellular restricted stock units granted to Mary N. Dillon on June 1, 2010 (with accelerated vesting in the event of termination without cause or for good reason), is hereby incorporated by reference from Exhibit 10.2 to U.S. Cellular's Current Report on Form 8-K dated June 1, 2010

Exhibit 10.4 U.S. Cellular 2005 Long-Term Incentive Plan 2010 Stock Option Award Agreement evidencing U.S. Cellular stock options granted to Mary N. Dillon on June 1, 2010 (without accelerated vesting in the event of termination without cause or for good reason), is hereby incorporated by reference from Exhibit 10.3 to U.S. Cellular's Current Report on Form 8-K dated June 1, 2010

Exhibit 10.5 U.S. Cellular 2005 Long-Term Incentive Plan 2010 Restricted Stock Unit Award Agreement evidencing U.S. Cellular restricted stock units granted to Mary N. Dillon on June 1, 2010 (without accelerated vesting in the event of termination without cause or for good reason), is hereby incorporated by reference from Exhibit 10.4 to U.S. Cellular's Current Report on Form 8-K dated June 1, 2010

Exhibit 10.6 Master Service Agreement entered into by United States Cellular Corporation and Amdocs Software Systems Limited on August 17, 2010 to develop a Billing and Operational Support System ( B/OSS ) with a new point-of-sale



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system to consolidate billing on one platform, is hereby incorporated by reference from Exhibit 10.8 to U.S. Cellular's Quarterly Report on Form 10-Q dated September 30, 2010 \*

Exhibit 10.7 Software License and Maintenance Agreement entered into by United States Cellular Corporation and Amdocs Software Systems Limited on August 17, 2010 to develop a Billing and Operational Support System ( B/OSS ) with a new point-of-sale system to consolidate billing on one platform, is hereby incorporated by reference from Exhibit 10.9 to U.S. Cellular's Quarterly Report on Form 10-Q dated September 30, 2010 \*

Exhibit 11 Computation of Earnings per share is included herein as Note 6 Earnings Per Share in the Notes to Consolidated Financial Statements.

Exhibit 12 Statement regarding computation of ratio of earnings to fixed charges.

Exhibit 31.1 Chief Executive Officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 31.2 Chief Financial Officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 32.1 Chief Executive Officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 32.2 Chief Financial Officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCH XBRL Taxonomy Extension Schema Document

Exhibit 101.PRE XBRL Taxonomy Presentation Linkbase Document

Exhibit 101.CAL XBRL Taxonomy Calculation Linkbase Document

Exhibit 101.LAB XBRL Taxonomy Label Linkbase Document

Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

The foregoing exhibits include only the exhibits that relate specifically to this Form 10-Q or that supplement the exhibits identified in TDS Form 10-K for the year ended December 31, 2009. Reference is made to TDS Form 10-K for the year ended December 31, 2009 for a complete list of exhibits, which are incorporated herein except to the extent supplemented or superseded above.

\* Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission as part of an application for confidential treatment pursuant to the Securities Exchange Act of 1934, as amended.

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SIGNATURES

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

TELEPHONE AND DATA SYSTEMS, INC.  
(Registrant)

Date: November 4, 2010

/s/ LeRoy T. Carlson, Jr.  
LeRoy T. Carlson, Jr.,

President and Chief Executive  
Officer

(Principal Executive Officer)

Date: November 4, 2010

/s/ Kenneth R. Meyers  
Kenneth R. Meyers,

Executive Vice President and  
Chief Financial Officer

(Principal Financial Officer)

Date: November 4, 2010

/s/ Douglas D. Shuma  
Douglas D. Shuma,

Senior Vice President and  
Corporate Controller

(Principal Accounting Officer)

Signature page for the TDS 2010 Third Quarter Form 10-Q



