TELEPHONE & DATA SYSTEMS INC /DE/
Form ARS
April 23, 2010

TELEPHONE AND DATA SYSTEMS, INC.

ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2009
Pursuant to SEC Rule 14a-3

The following audited financial statements and certain other financial information for the year ended December 31, 2009, represent Telephone and Data Systems' annual report to shareholders as required by the rules and regulations of the Securities and Exchange Commission ("SEC").

The following information was filed with the SEC on February 25, 2010 as Exhibit 13 to Telephone and Data Systems' Annual Report on Form 10-K for the year ended December 31, 2009. Such information has not been updated or revised since the date it was originally filed with the SEC. Accordingly, you are encouraged to review such information together with any subsequent information that we have filed with the SEC and other publicly available information.

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Exhibit 13

Telephone and Data Systems, Inc. and Subsidiaries

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Telephone and Data Systems, Inc.

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

Telephone and Data Systems, Inc. ("TDS") is a diversified telecommunications company providing high-quality telecommunications services in 36 states to approximately 6.1 million wireless customers and 1.1 million wireline equivalent access lines at December 31, 2009. TDS conducts substantially all of its wireless operations through its 82%-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 80%-owned subsidiary, Suttle-Straus, Inc. ("Suttle-Straus") which represents a very small portion of TDS' operations.

The following discussion and analysis should be read in conjunction with TDS' audited consolidated financial statements and the description of TDS' business included in Item 1 of the TDS Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 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 summary does not contain all of the information that may be important. You should carefully read the entire Management's Discussion and Analysis of Financial Condition and Results of Operations and not rely solely on the overview.

U.S. Cellular

U.S. Cellular provides wireless telecommunications services to more than 6.1 million customers in five geographic market areas in 26 states. As of December 31, 2009, U.S. Cellular's average penetration rate in its consolidated operating markets, calculated by dividing U.S. Cellular's total customers by the total population of 46.3 million in such markets, was 13.3%. U.S. Cellular operates on a customer satisfaction strategy, meeting 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 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 2009 included the following:

- Total customers were 6,141,000 at December 31, 2009, including 5,744,000 retail customers.

- Retail customer net additions were 37,000 in 2009 compared to 149,000 in 2008. The decrease year-over-year reflected higher churn rates, due to the weak economy and very competitive industry conditions which included the initiation of service by unlimited prepay service providers in certain of U.S. Cellular's markets.

- Postpay customers comprised approximately 95% of U.S. Cellular's retail customer base as of December 31, 2009. Postpay net additions were 62,000 in 2009 compared to 158,000 in 2008. The postpay churn rate was 1.6% in 2009 compared to 1.5% in 2008.

- Service revenues of $3,927.9 million decreased $12.5 million year-over-year, due primarily to a decrease of $76.4 million (23%) in inbound roaming revenues. Retail service revenue grew by $33.2 million (1%) due primarily to an increase in the average monthly retail service revenue per customer, driven by higher data usage. Data revenues grew 33% year-over-year to $683.0 million.

- On June 30, 2009, U.S. Cellular entered into a new $300 million revolving credit agreement with certain lenders and other parties. As a result, U.S. Cellular's $700 million revolving credit agreement, which was due to expire in December 2009, was terminated on June 30, 2009 as a condition of entering into

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the new agreement. The new revolving credit agreement provides U.S. Cellular with a $300 million senior revolving credit facility for working capital, acquisitions and other corporate purposes and to refinance any existing debt of U.S. Cellular.

On December 24, 2009, U.S. Cellular redeemed all of its outstanding 8.75% Senior Notes due November 1, 2032. The $130.0 million aggregate principal amount of the outstanding notes was redeemed at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest, which resulted in a total redemption payment of $131.7 million.

Additions to property, plant and equipment totaled $546.8 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 and continue the development and enhancement of U.S. Cellular's office systems. Total cell sites in service increased 6% year-over-year to 7,279.

As part of its customer satisfaction strategy and Believe in Something Better® brand message, U.S. Cellular launched its Battery Swap program in May 2009. Under this new program, a customer can exchange a battery that is dead or dying for one that is fully charged, at no cost to the customer. U.S. Cellular was the first wireless company to offer this service in the United States, and completed over one million battery swaps in 2009.

In November 2009, U.S. Cellular launched Overage Protection, a customer satisfaction strategy that allows customers to opt into receiving alerts when they come close to reaching their allowable plan minutes or text messages for the month in order to avoid overage charges. Approximately 600,000 of U.S. Cellular's customers signed up for this service in 2009.

U.S. Cellular began efforts on a number of multi-year initiatives including the development of: a Billing and Operational Support System ("BSS/OSS") including 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, eventually, to manage their accounts online.

U.S. Cellular recognized a loss on impairment of licenses of $14.0 million in 2009. In 2008, a loss on impairment of $386.7 million was recognized. See "Results of Operations Consolidated" and "Results of Operations Wireless" for a further discussion of losses on impairment. U.S. Cellular anticipates that future growth in its operating income will be affected by the following factors:

Overall demand for U.S. Cellular's products and services, including potential growth in revenues from data products and services;

Increasing penetration in the wireless industry;

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 prepay service;

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

Costs of customer acquisition and retention, such as equipment subsidies and advertising;

Industry consolidation and the resultant effects on roaming revenues, service and equipment pricing and other effects of competition;

Providing service in recently launched areas or potential new market areas;

Potential increases or decreases in prepay and reseller customers as a percentage of U.S. Cellular's customer base;

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- Costs of developing and introducing new products and services;
- Costs of developing and enhancing office and customer support systems, including costs and risks associated with the completion of important multi-year initiatives such as those described above;
- Continued enhancements to its wireless networks, including expansion of 3G services and potential deployments of new technology;
- Increasing costs of regulatory compliance; and
- Uncertainty in future eligible telecommunication carrier ("ETC") funding.

See "Results of Operations Wireless."

2010 Wireless Estimates

U.S. Cellular expects the factors described above to impact revenues and operating income for the next several quarters. Any changes in the above factors, as well as the effects of other drivers of U.S. Cellular's operating results, may cause revenues and operating income to fluctuate over the next several quarters.

U.S. Cellular's 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 Form 10-K for the year ended December 31, 2009. 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.

	2010 Estimated Results	2009 Actual Results
Service revenues	$3,975 - $4,075 million	$3,927.9 million
Operating income	$250 - $350 million	$326.4 million
Depreciation, amortization and accretion expenses, and losses on disposals and impairment of assets(1)	Approx. $600 million	$599.8 million
Capital expenditures	Approx. $600 million	$546.8 million

(1) 2009 Actual Results include losses on asset disposals of $15.2 million and impairments of assets of $14.0 million. The 2010 Estimated Results include only the estimate for Depreciation, amortization and accretion expenses and losses on disposals of assets, and do not include any estimate for losses on impairment of assets (since these can not be predicted).

U.S. Cellular management believes that the foregoing estimates represent a reasonable view of what is achievable considering current economic and competitive conditions as well as actions that U.S. Cellular has taken and will be taking. 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 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. 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, and improve its prepay products and services.

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TDS Telecom

TDS Telecom provides high-quality telecommunication services, including full-service local exchange service, long-distance telephone service and broadband access, to rural and suburban area communities. TDS Telecom's business plan is designed for a full-service telecommunications company, including both ILEC and CLEC operations. TDS Telecom's strategy is to be the preferred provider of telecommunications 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;
- Monitoring the competitive environment;
- 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 the industry-wide decline in use of second lines by customers, 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 the 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 for 2009 include the following:

- Equivalent access lines decreased 3% to 1,131,800 as compared to December 31, 2008. 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. Additionally, each managed IP handset is considered an equivalent access line.
- Operating revenues decreased $34.4 million or 4% to $789.9 million in 2009. The decrease was primarily due to a decline in ILEC and CLEC physical access lines as well as a decline in voice network usage by inter-exchange carriers. These decreases were partially offset by the increase in revenues derived from an increase in ILEC data customers and the acquisition of one ILEC company in 2009 and three ILEC companies in 2008.
- Operating expenses increased $15.2 million or 2% to $697.3 million in 2009. The increase was primarily due to an increase in legal, excise and sales tax expenses arising from discrete matters totaling $3.5 million and severance of $5.1 million incurred as a result of workforce reduction initiatives. Additional costs were also incurred from operating the four ILEC companies acquired in 2008 and 2009. Partially offsetting these increases in expenses were discrete events related to employee compensation modifications which reduced expenses by $4.1 million.

Operating income decreased to $92.6 million during 2009 compared to $142.2 million in 2008, as a result of decreased operating revenues and increased expenses noted above.

Additions to property, plant and equipment totaled $120.5 million in 2009.

See "Results of Operations Wireline."

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2010 Wireline Estimates

TDS Telecom's 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-K for the year ended December 31, 2009. 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.

	2010 Estimated Results	2009 Actual Results
ILEC and CLEC operations:		
Operating revenues	$740 - $780 million	$789.9 million
Operating income	$70 - $100 million	$92.6 million
Depreciation, amortization and accretion expenses and losses on asset disposals(1)	Approx. $170 million	$169.7 million
Capital expenditures	Approx. $140 million	$120.5 million

(1) 2009 Actual Results include losses on disposals of $2.4 million. The 2010 Estimated Results include only the estimate for Depreciation, amortization and accretion expenses and losses on asset disposals, and do not include any estimate for losses on impairment of assets since these cannot be predicted.

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 involving voice, DSL and satellite TV.

Cash Flows and Investments TDS and its subsidiaries had cash and cash equivalents totaling $671.0 million, short-term investments in the form of certificates of deposit aggregating $113.3 million and borrowing capacity under their revolving credit facilities of $696.4 million as of December 31, 2009. In addition to U.S. Cellular's new $300 million revolving credit agreement, as previously discussed, on June 30, 2009, TDS entered into a new $400 million revolving credit agreement with certain lenders and other parties. As a result, TDS' $600 million revolving credit agreement, which was due to expire in December 2009, was terminated on June 30, 2009 as a condition of entering into the new agreement. TDS' and U.S. Cellular's new revolving credit agreements provide TDS with an aggregate $700 million of availability for general corporate purposes. Also, during 2009, TDS and its subsidiaries generated $1,102.6 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 and investments, including information related to TDS' and U.S. Cellular's new revolving credit agreements.

Recent Developments Congress recently 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. TDS Telecom and U.S. Cellular submitted applications for grants in the first round of funding in the amounts of $62.6 million and $23.5 million, respectively. TDS Telecom received approval for two of its applications in the aggregate amount of $12.5 million while U.S. Cellular has been notified that none of its applications were granted. TDS Telecom and U.S. Cellular are currently considering submitting additional applications for grants in the second round of funding, which applications are due March 15, 2010. There is no assurance TDS Telecom and/or U.S. Cellular will receive any additional grants of Recovery Act funds. The distribution of Recovery Act funds to other telecommunications service providers could impact competition in certain of TDS Telecom's and U.S. Cellular's service areas.

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RESULTS OF OPERATIONS CONSOLIDATED

December 31,	2009	Increase/ (Decrease)	Percentage Change	2008	Increase/ (Decrease)	Percentage Change	2007
	(Dollars in thousands, except per share amounts)						
Operating revenues							
U.S. Cellular	$ 4,214,611	$ (28,574)	(1)%	$ 4,243,185	$ 296,921	8%	$ 3,946,264
TDS Telecom	789,852	(34,430)	(4)%	824,282	(35,929)	(4)%	860,211
All other(1)	16,211	(8,341)	(34)%	24,552	2,043	9%	22,509
Total operating revenues	5,020,674	(71,345)	(1)%	5,092,019	263,035	5%	4,828,984
Operating expenses							
U.S. Cellular	3,888,204	(327,271)	(8)%	4,215,475	665,410	19%	3,550,065
TDS Telecom	697,287	15,249	2%	682,038	(36,971)	(5)%	719,009
All other(1)	27,377	(38,975)	(59)%	66,352	34,340	>100%	32,012
Total operating expenses	4,612,868	(350,997)	(7)%	4,963,865	662,779	15%	4,301,086
Operating income (loss)							
U.S. Cellular	326,407	298,697	>100%	27,710	(368,489)	(93)%	396,199
TDS Telecom	92,565	(49,679)	(35)%	142,244	1,042	1%	141,202
All other(1)	(11,166)	30,634	73%	(41,800)	(32,297)	>100%	(9,503)
Total operating income	407,806	279,652	>100%	128,154	(399,744)	(76)%	527,898
Other income and (expenses)							
Equity in earnings of unconsolidated entities	90,732	920	1%	89,812	(2,019)	(2)%	91,831
Interest and dividend income	11,121	(28,010)	(72)%	39,131	(160,304)	(80)%	199,435
Interest expense	(124,557)	13,342	10%	(137,899)	70,837	34%	(208,736)
Gain on investments and financial instruments		(31,595)	N/M	31,595	(49,828)	(61)%	81,423
Other, net	2,000	(213)	(10)%	2,213	8,614	>100%	(6,401)

Total other income (expenses)		(20,704)		(45,556)	>100%		24,852		(132,700)	(84)%		157,552
Income before income taxes and extraordinary item		387,102		234,096	>100%		153,006		(532,444)	(78)%		685,450
Income tax expense		133,376		103,283	>100%		30,093		(238,961)	(89)%		269,054
Income before extraordinary item		253,726		130,813	>100%		122,913		(293,483)	(70)%		416,396
Extraordinary item, net of tax					N/M				(42,827)	N/M		42,827
Net income		253,726		130,813	>100%		122,913		(336,310)	(73)%		459,223
Less: Net income attributable to noncontrolling interests, net of tax		(59,824)		(30,452)	>100%		(29,372)		43,739	60%		(73,111)
Net income attributable to TDS shareholders		193,902		100,361	>100%		93,541		(292,571)	(76)%		386,112
Preferred dividend requirement		(51)		1	2%		(52)					(52)
Net income available to common	$	193,851	$	100,362	>100%	$	93,489	$	(292,571)	(76)%	$	386,060
Basic earnings per share attributable to TDS shareholders	$	1.77	$	0.96	>100%	$	0.81	$	(2.47)	(75)%	$	3.28
Diluted earnings per share attributable to TDS shareholders	$	1.77	$	0.97	>100%	$	0.80	$	(2.42)	(75)%	$	3.22

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

N/M Percentage change not meaningful

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Operating Revenues and Expenses

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

Operating expenses included impairment losses on licenses held at U.S. Cellular in 2009, 2008 and 2007, and are discussed in "Results of Operations Wireless". An additional $27.7 million impairment loss on licenses was recognized at the TDS consolidated level in 2008 due to the fact that TDS accounted for U.S. Cellular's share repurchases as step acquisitions, allocating a portion of the repurchase value to TDS licenses, as required by GAAP in effect at that time.

The impact of impairment losses related to licenses was as follows:

	2009	2008	2007
	(Dollars in millions, except per share amounts)		
Net income attributable to TDS shareholders, excluding licenses impairments(1)	$ 201.0	$ 302.7	$ 397.9
Loss on impairment of intangible assets related to licenses(2)	(14.0)	(414.4)	(23.0)
Income tax and noncontrolling interest impact of licenses impairment(1)	6.9	205.2	11.2
Impact of licenses impairments on Net income attributable to TDS shareholders(1)	(7.1)	(209.2)	(11.8)
Net income attributable to TDS shareholders	$ 193.9	$ 93.5	$ 386.1
Diluted earnings per share attributable to TDS shareholders, excluding licenses impairments(1)	$ 1.84	$ 2.60	$ 3.32
Impact of licenses impairments on Diluted earnings per share attributable to TDS shareholders(1)	(0.07)	(1.80)	(0.10)
Diluted earnings per share attributable to TDS shareholders	$ 1.77	$ 0.80	$ 3.22

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

(2) Loss on impairment of intangible assets on the Consolidated Statement of Operations for 2007 also included a $1.9 million loss on impairment related to customer lists.

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents TDS' share of net income from markets in which it has a noncontrolling interest and that are accounted for by the equity method. TDS follows the equity method of accounting for unconsolidated entities over which it has the ability to exercise significant influence, generally 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.

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TDS' investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed $64.7 million, $66.1 million and $71.2 million to Equity in earnings of unconsolidated entities in 2009, 2008 and 2007, respectively. TDS also received cash distributions from the LA Partnership of $66.0 million in each of 2009, 2008 and 2007.

Interest and dividend income

Interest income decreased $18.0 million in 2009 compared to 2008 and $42.2 million in 2008 compared to 2007 primarily due to a lower interest rate earned on cash balances. The weighted average return on cash investments declined due to both a decline in short-term interest rates and a change in the composition of TDS' cash investments. TDS invested substantially all of its cash balances in prime money market funds from January 2007 through August 2007 and in money market funds that invest exclusively in short-term U.S. Treasury securities or repurchase agreements backed by U.S. Treasury securities thereafter. In addition, lower average investment balances in 2009 compared to 2008 contributed to the interest income decline.

Dividend income decreased by $10.0 million in 2009 and by $118.1 million in 2008 primarily due to a decrease in dividends from Deutsche Telekom Ordinary Shares. A portion of these shares were disposed of in 2007, and the remainder of these shares were disposed of in 2008.

Interest expense

The decrease in interest expense in 2009 and 2008 was primarily attributable to variable prepaid forward contracts. TDS settled a portion of these contracts in 2007, and the remainder in 2008.

Interest expense is summarized by related debt instrument in the following table:

Year Ended December 31,	2009	2008	2007
	(Dollars in thousands)		
Forward contracts	$	$ 12,028	$ 77,543
U.S. Cellular 6.7% senior notes	37,084	37,085	37,084
U.S. Cellular 7.5% senior notes	25,114	25,113	25,113
U.S. Cellular 8.75% senior notes(1)	11,166	11,383	11,380
TDS 7.6% notes	38,414	38,414	38,414
TDS 6.625% notes	7,798	7,798	7,798
U.S. Cellular revolving credit facility	3,011	3,061	4,967
TDS revolving credit facility	2,547	1,695	2,765
Other	(577)	1,322	3,672
Total interest expense	$ 124,557	$ 137,899	$ 208,736

(1) The 8.75% senior notes were due November 1, 2032. Interest was paid quarterly. U.S. Cellular redeemed the notes in whole at the redemption price equal to 100% of the principal amount plus accrued and unpaid interest on December 24, 2009, which resulted in a total redemption payment of $131.7 million.

Gain on investments and financial instruments

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

In 2007, Gain on investments and financial instruments included an aggregate net gain of $75.1 million related the investments in Vodafone American Depository Receipts, VeriSign Common Shares and Deutsche Telekom Ordinary Shares, including the settlement and disposition of a portion of these

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investments and related collars. Also included in 2007 was a $6.3 million additional gain from the sale of U.S. Cellular's interest in Midwest Wireless Communications, LLC ("Midwest Wireless").

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

Income tax expense

The effective tax rates on Income before income taxes and extraordinary item ("pre-tax income") for 2009, 2008 and 2007 were 34.5%, 19.7% and 39.3%, respectively. The following significant discrete and other items impacted income tax expense for these years:

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

2008 Includes tax benefits of $19.7 million and $7.4 million recorded upon the final disposition of the Deutsche Telekom Ordinary Shares and from a change in filing positions in certain states, respectively. The percentage impact of these items was magnified due to the 2008 Loss on impairment of intangible assets of $414.4 million, which decreased pre-tax income.

2007 Includes tax expense of $6.1 million, $4.6 million and $11.4 million primarily due to the increase in valuation allowances resulting from to the restructuring of certain legal entities, a write-off of deferred tax assets for certain partnerships, and foreign taxes related to dividend income on the Deutsche Telekom Ordinary Shares, respectively.

Net income attributable to noncontrolling interests, net of tax

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

Year Ended December 31,	**2009**	**2008**	**2007**
	(Dollars in thousands)		
Net income attributable to noncontrolling interest, net of tax			
U.S. Cellular			
Noncontrolling public shareholders'	$ (40,151)	$ (6,629)	$ (60,600)
Noncontrolling shareholders' or partners'	(19,673)	(22,743)	(12,398)
	(59,824)	(29,372)	(72,998)
Other			(113)
	$ (59,824)	$ (29,372)	$ (73,111)

Extraordinary Item

The extraordinary item was attributable to TDS Telecom's discontinuance of application of accounting for regulated enterprises prescribed by FASB ASC 980, *Regulated Operations* ("FASB ASC 980"), in the third quarter of 2007. See Note 5 Extraordinary Item in the Notes to Consolidated Financial Statements for more information.

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Telephone and Data Systems, Inc.

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

RESULTS OF OPERATIONS WIRELESS

TDS provides wireless telephone service through U.S. Cellular, an 82%-owned subsidiary. U.S. Cellular owns, manages and invests in wireless markets throughout the United States.

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

As of December 31,(1)	2009	2008	2007
Total market population of consolidated operating markets(2)	46,306,000	46,009,000	44,955,000
Customers(3)	6,141,000	6,196,000	6,102,000
Market penetration(2)	13.3%	13.5%	13.6%
Total full-time equivalent employees(4)	8,867	8,712	8,067
Cell sites in service	7,279	6,877	6,383

For the Year Ended December 31,(5)	2009	2008	2007
Net retail customer additions(6)	37,000	149,000	333,000
Net customer additions (losses)(6)	(55,000)	91,000	281,000
Average monthly service revenue per customer(7)	$ 53.00	$ 53.23	$ 51.17
Postpay churn rate(8)	1.6%	1.5%	1.4%

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

(2) Calculated using 2008, 2007 and 2006 Claritas population estimates for 2009, 2008 and 2007, 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 89,712,000 and 6.8%, 83,014,000 and 7.5%, and 82,371,000 and 7.4% as of December 31, 2009, 2008 and 2007, respectively.

A wholly owned subsidiary of U.S. Cellular is a limited partner in King Street Wireless, L.P. ("King Street Wireless"), an entity which participated in the auction of wireless spectrum in the 700 megahertz band designated by the FCC as Auction 73. At the conclusion of the auction on March 20, 2008, King Street Wireless was the provisional winning bidder with respect to 152 licenses. These 152 license areas cover portions of 27 states and are in markets which are either adjacent to or overlap current U.S. Cellular license areas. On December 30, 2009, the FCC granted the licenses to King Street Wireless which increased total market population of consolidated markets by 4,549,000 in 2009, but had no impact on the population of consolidated operating markets.

As a result of exchange transactions with AT&T that closed in August 2003, U.S. Cellular obtained rights to acquire additional licenses, and all except one of such licenses have been acquired and are reflected in the total market population of consolidated markets as of December 31, 2009. During 2009, U.S. Cellular acquired licenses pursuant to this exchange agreement which increased total market population of consolidated markets by 1,392,000, but had no impact on the population of consolidated operating markets. The acquisition of these licenses did not require U.S. Cellular to provide any consideration to AT&T beyond that already provided in conjunction with the August 2003 exchange transaction and, thus, did not cause a change in U.S. Cellular's Licenses balance in 2009. U.S. Cellular continues to have a right under the August 2003 exchange agreement to acquire a majority interest in one additional license; that right does not have a stated expiration date.

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(3)

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

	2009	2008	2007
Customers on postpay service plans in which the end user is a customer of U.S. Cellular ("postpay customers")	5,482,000	5,420,000	5,269,000
Customers on prepay service plans in which the end user is a customer of U.S. Cellular ("prepay customers")	262,000	287,000	295,000
Total retail customers	5,744,000	5,707,000	5,564,000
End user customers acquired through U.S. Cellular's agreements with third parties ("reseller customers")	397,000	489,000	538,000
Total customers	6,141,000	6,196,000	6,102,000

(4)

Part-time employees are calculated at 70% of full-time employees. Prior year numbers were adjusted to conform to current year presentation.

(5)

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

(6)

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

(7)

Management uses this measurement to assess the amount of service revenue that U.S. Cellular generates each month on a per customer basis. Variances in this measurement are monitored and compared to variances in expenses on a per customer basis. Average monthly service revenue per customer is calculated as follows

	2009	2008	2007
Service revenues per Consolidated Statement of Operations (000s)	$ 3,927,859	$ 3,940,326	$ 3,679,237
Divided by average customers during period (000s)*	6,176	6,169	5,992
Divided by number of months in each period	12	12	12
Average monthly service revenue per customer	$ 53.00	$ 53.23	$ 51.17

*

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

(8) Postpay churn rate represents the percentage of the postpay customer base that disconnects service each month.

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Components of Operating Income

Year Ended December 31,	2009	Increase/ (Decrease)	Percentage Change	2008	Increase/ (Decrease)	Percentage Change	2007
			(Dollars in thousands)				
Retail service	$ 3,478,939	$ 33,177	1%	$ 3,445,762	$ 191,800	6%	$ 3,253,962
Inbound roaming	252,775	(76,421)	(23)%	329,196	35,430	12%	293,766
Other	196,145	30,777	19%	165,368	33,859	26%	131,509
Service revenues	3,927,859	(12,467)		3,940,326	261,089	7%	3,679,237
Equipment sales	286,752	(16,107)	(5)%	302,859	35,832	13%	267,027
Total operating revenues	4,214,611	(28,574)	(1)%	4,243,185	296,921	8%	3,946,264
System operations (excluding Depreciation, amortization and accretion reported below)	796,617	12,560	2%	784,057	66,982	9%	717,075
Cost of equipment sold	742,993	(413)		743,406	106,109	17%	637,297
Selling, general and administrative	1,748,760	47,710	3%	1,701,050	142,482	9%	1,558,568
Depreciation, amortization and accretion	570,658	(6,273)	(1)%	576,931	(1,255)		578,186
Loss on impairment of intangible assets	14,000	(372,653)	(96)%	386,653	361,730	>100%	24,923
Loss on asset disposals, net	15,176	(8,202)	(35)%	23,378	(10,638)	(31)%	34,016
Total operating expenses	3,888,204	(327,271)	(8)%	4,215,475	665,410	19%	3,550,065

Operating income	$	326,407	$	298,697	>100%	$	27,710	$	(368,489)	(93)%	$	396,199

N/M Percentage change not meaningful

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 Federal Universal Service Fund ("USF").

Retail service revenues

The increase in Retail service revenues in 2009 was due primarily to an increase in average monthly retail service revenue per customer. The increase in 2008 was due primarily to growth in U.S. Cellular's average customer base and an increase in average monthly retail service revenue per customer.

The average number of customers in 2009 was relatively flat compared to 2008. The increase in the average number of customers in 2008 was driven primarily by the net retail customer additions that U.S. Cellular generated from its marketing distribution channels and by the timing of acquisitions.

Average monthly retail service revenue per customer increased 1% to $46.94 in 2009 from $46.55 in 2008, and increased 3% in 2008 from $45.25 in 2007. The increase in average monthly retail service revenue was driven primarily by growth in revenues from data products and services.

Revenues from data products and services totaled $683.0 million in 2009, $511.7 million in 2008, and $367.9 million in 2007 and represented 17% of total service revenues in 2009 compared to 13% and 10% of total service revenues in 2008 and 2007, respectively. 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, **easy**edge^{SM} service and applications, premium mobile Internet services, and smartphone handsets and services. In 2009, U.S. Cellular introduced unlimited messaging plans and unlimited messaging and mobile Internet plans that further drove data usage and revenues. U.S. Cellular expects that the growth in 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 75% of its customers as of December 31, 2009. U.S. Cellular expects to expand its 3G network to cover approximately 98% of its customers by the end of 2010.

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 for voice services 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). Also, decreases in the prepay customer base and the average revenue per prepay customer contributed to a decline in prepay voice revenues. U.S. Cellular expects continued pressure on revenues from voice services in the foreseeable future due to industry competition related to service plan offerings.

Inbound roaming revenues

The decrease in Inbound roaming revenues in 2009 was due primarily 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 will stabilize in 2010 compared to 2009 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.

In 2008, the increase in Inbound roaming revenues was related primarily to higher usage for both voice and data products and services, partially offset by a decline in rates per minute or kilobyte of use with key roaming partners. The increase in inbound usage was driven primarily by the overall growth in the number of customers and higher usage per customer throughout the wireless industry, including usage related to both voice and data products and services, which led to an increase in inbound traffic from other wireless carriers.

Other revenues

The increases in Other revenues in 2009 and 2008 were due primarily to increases in amounts that were received from the USF for states in which U.S. Cellular has been designated as an ETC. U.S. Cellular was eligible to receive ETC funds in sixteen states in 2009 and 2008 and eleven states in 2007. ETC revenues recorded in 2009, 2008 and 2007 were $150.7 million, $127.5 million and $98.0 million, respectively.

In May 2008, the FCC adopted a state-by-state temporary cap to funding for competitive ETCs based on the funding level available as of March 31, 2008. The cap has had the effect of reducing the amount of support that U.S. Cellular would otherwise have been eligible to receive. During 2010, the FCC will likely issue a notice of proposed rulemaking to consider reform of the USF program in conjunction with the issuance of a National Broadband Plan in March 2010. Adoption of a USF reform proposal by the FCC could have a significant, and adverse, impact on the amount of support, if any, wireless ETCs continue to receive. As a result U.S. Cellular's ETC revenues may decline significantly in future periods.

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 rebates.

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U.S. Cellular strives to offer a competitive line of quality handsets to both new and existing customers. U.S. Cellular's customer retention efforts include offering new handsets, such as 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 2009 Equipment sales revenues was driven primarily by a decline of 8% in average revenue per handset sold due to aggressive promotional pricing across all categories of handsets, partially offset by an increase in the total number of handsets sold. The increase in 2008 Equipment sales revenues was driven by an increase of 10% in average revenue per handset sold, primarily reflecting the sale of more expensive handsets with expanded capabilities, including smartphones and premium 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.

Key components of the overall increases in system operations expenses were as follows:

- Maintenance, utility and cell site expenses increased $14.4 million, or 5%, in 2009 and $24.6 million, or 9% in 2008, driven primarily by increases in the number of cell sites within U.S. Cellular's network. The number of cell sites totaled 7,279 in 2009, 6,877 in 2008 and 6,383 in 2007, as U.S. Cellular continued to grow by expanding and enhancing coverage in its existing markets. In 2008 and 2007, growth also included acquisitions of existing wireless operations. The increase in 2009 and 2008 also was due to an increase in software maintenance costs to support rapidly growing data needs.

- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased $4.3 million, or 2%, in 2009 and $28.0 million, or 17%, in 2008. The increase in 2009 was due primarily to higher data usage. The increase in 2008 was due to an increase in roaming minutes of use driven by customer migration to national and wide area plans.

- In 2009, the cost of network usage on U.S. Cellular's systems decreased $6.1 million, or 2%, due primarily to reduced interconnection costs, which reflected a change in estimate during the fourth quarter (as disclosed in Note (4) to the Consolidated Quarterly Information (Unaudited) below), partially offset by an increase in data usage. In 2008, cost of network usage increased $14.4 million, or 5%, as voice and data usage on U.S. Cellular's systems increased driven primarily by continued migration to voice plans with a larger number of packaged minutes, text messaging plans, and other data offerings. In both years, data network and developer costs also increased due to the increase in data usage.

U.S. Cellular expects total system operations expenses to increase in the foreseeable future, driven by the following factors:

- Increases in the number of cell sites and other network facilities within U.S. Cellular's systems as it continues to add capacity and enhance quality;

- Continued expansion of 3G services to additional markets; and

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Increases in total customer usage, driven by text messaging and other data usage, both on U.S. Cellular's network and by U.S. Cellular's customers on other carriers' networks when roaming.

Cost of equipment sold

Cost of equipment sold remained relatively flat in 2009 compared to 2008. A reduction in the average cost per handset sold, reflecting lower overall purchase costs, was offset by an increase in the total number of handsets sold. Cost of equipment sold increased in 2008 due primarily to a 13% increase in the average cost per handset sold as a result of sales of more expensive handsets with expanded capabilities, including smartphones and premium handsets.

U.S. Cellular expects loss on equipment, defined as equipment sales revenues less cost of equipment sold, to increase in the foreseeable future as wireless carriers continue to use handset availability and pricing as a means of competitive differentiation. New handsets with expanded capabilities, particularly smartphones and premium handsets, generally have higher purchase costs for carriers which, due to competitive market conditions, generally cannot be recovered through proportionately higher selling prices to customers.

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. Selling, general and administrative expenses also include bad debts expense, costs of operating customer care centers and corporate expenses.

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

2009

General and administrative expenses increased $57.4 million, or 7%, due primarily to higher bad debts expense as a result of higher bad debt write-offs and a change in estimate during the fourth quarter (as disclosed in Note (4) to the Consolidated Quarterly Information (Unaudited) below); higher employee related expenses; costs of the Battery Swap program; and investments in multi-year initiatives as described in the Overview section. Partially offsetting these and other increases were lower USF contributions (most of the USF contribution expenses are offset by revenues for amounts passed through to customers).

Advertising expenses decreased $18.3 million, or 7%. Advertising expenses in 2008 included expenditures related to the launch in June 2008 of a new branding campaign, Believe in Something Better®.

Other selling and marketing expenses increased $8.6 million, or 2%, reflecting higher commissions due to a greater number of retail sales and renewals.

2008

General and administrative expenses increased $63.3 million, or 8%, due to increases in employee related expenses; increases related to bad debts expense (reflecting both higher revenues and higher bad debts as a percent of revenues); and increases in USF contributions and other regulatory fees and taxes. Partially offsetting these expenses were decreases in consulting and outsourcing expenses and billing expenses.

Advertising expenses increased $47.3 million, or 21%, due primarily to an increase in media purchases, including expenditures related to the launch in June 2008 of a new branding campaign, Believe in Something Better®.

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Other selling and marketing expenses increased $31.9 million, or 6%, reflecting more retail sales associates, higher retail facilities expenses and higher commissions due to a greater number of retail sales and renewals.

U.S. Cellular expects Selling, general and administrative expenses to increase 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 discussed previously.

Depreciation, amortization and accretion

Depreciation, amortization and accretion decreased $6.3 million, or 1%, due primarily to fully depreciating Time Division Multiple Access ("TDMA") and analog network equipment in 2008, partially offset by accelerating depreciation of certain cell site and switch equipment in 2009. U.S. Cellular discontinued its TDMA-based service in 2009; in connection with such discontinuance, property, plant and equipment in service and accumulated depreciation of $452.0 million were eliminated from the Consolidated Balance Sheet.

See "Financial Resources" and "Liquidity and Capital Resources" for a discussion of U.S. Cellular's capital expenditures.

Loss on impairment of intangible assets

U.S. Cellular recognized impairment losses on licenses of $14.0 million and $386.7 million in 2009 and 2008, respectively. The impairment losses on licenses in 2009 were as a result of the annual impairment assessment of licenses and goodwill performed during the fourth quarter of 2009. The 2008 impairment loss was attributable to the deterioration in the credit and financial markets and the accelerated decline in the overall economy in the fourth quarter of 2008. These factors impacted U.S. Cellular's calculation of the estimated fair value of licenses in the fourth quarter of 2008 through the use of a higher discount rate when projecting future cash flows and lower than previously projected earnings in the wireless industry.

In 2007, $20.8 million of the impairment loss was recognized in conjunction with the exchange of personal communication licenses with Sprint Nextel. Of the remaining 2007 impairment loss, $2.1 million related to other licenses and $1.9 million related to impairments of customer lists.

See the section below entitled, "Application of Critical Accounting Policies and Estimates Goodwill and Licenses" for a further discussion of the 2009 and 2008 licenses impairments.

Loss on asset disposals, net

These amounts represent charges related to disposals of assets, trade-ins of older assets for replacement assets and other retirements of assets from service. In 2007, U.S. Cellular conducted a physical inventory of its significant cell site and switching assets. As a result, Loss on asset disposals, net included a charge of $14.6 million in 2007 to reflect the results of the physical inventory and related valuation and reconciliation.

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RESULTS OF OPERATIONS WIRELINE

TDS operates its wireline operations through TDS Telecom, a wholly owned subsidiary. The following table summarizes operating data for TDS Telecom's ILEC and CLEC operations:

As of December 31,	2009	2008	2007
ILEC			
Equivalent access lines(1)	775,900	776,700	762,700
Physical access lines(2)	536,300	566,200	585,600
High-speed data customers	208,300	178,300	143,800
Managed IP stations	1,900	600	
Long-distance customers	362,800	347,000	345,200
CLEC			
Equivalent access lines(3)	355,900	393,000	435,000
High-speed data customers	36,900	40,800	43,900
Managed IP stations	12,000	2,100	
Full-time equivalent TDS Telecom employees	2,547	2,703	2,703

(1) In 2009 and 2008, TDS Telecom acquired 8,200 and 18,400 equivalent access lines, respectively, in ILEC acquisitions.

(2) In 2009 and 2008, TDS Telecom acquired 6,300 and 14,600 physical access lines, respectively, in ILEC acquisitions.

(3) The decline in 2009 and 2008 is primarily the result of a shift in marketing focus from residential and commercial customers to commercial customers.

TDS Telecom

Components of Operating Income

Year Ended December 31,	2009	Increase/ (Decrease)	Percentage Change	2008	Increase/ (Decrease)	Percentage Change	2007
			(Dollars in thousands)				
Operating revenues							
ILEC revenues	$ 599,527	$ (11,507)	(2)%	$ 611,034	$ (18,949)	(3)%	$ 629,983
CLEC revenues	199,375	(20,627)	(9)%	220,002	(16,527)	(7)%	236,529
Intra-company elimination	(9,050)	(2,296)	(34)%	(6,754)	(453)	(7)%	(6,301)
TDS Telecom operating revenues	789,852	(34,430)	(4)%	824,282	(35,929)	(4)%	860,211
Operating expenses							
ILEC expenses	510,142	23,669	5%	486,473	(16,120)	(3)%	502,593
CLEC expenses	196,195	(6,124)	(3)%	202,319	(20,398)	(9)%	222,717
Intra-company elimination	(9,050)	(2,296)	(34)%	(6,754)	(453)	(7)%	(6,301)

TDS Telecom operating expenses	697,287	15,249	2%	682,038	(36,971)	(5)%	719,009
TDS Telecom operating income	$ 92,565	$ (49,679)	(35)%	$ 142,244	$ 1,042	1%	$ 141,202

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ILEC Operations

Components of Operating Income

Year Ended December 31,	2009	Increase (Decrease)	Percentage Change	2008	Increase (Decrease)	Percentage Change	2007
			(Dollars in thousands)				
Operating revenues							
Voice revenues	$ 187,223	$ (16,149)	(8)%	$ 203,372	$ (15,516)	(7)%	$ 218,888
Data revenues	103,682	13,623	15%	90,059	17,041	23%	73,018
Network access revenues	271,276	(7,208)	(3)%	278,484	(22,803)	(8)%	301,287
Miscellaneous revenues	37,346	(1,773)	(5)%	39,119	2,329	6%	36,790
Total operating revenues	599,527	(11,507)	(2)%	611,034	(18,949)	(3)%	629,983
Operating expenses							
Cost of services and products (excluding depreciation, amortization and accretion reported below)	194,030	9,745	5%	184,285	(9,476)	(5)%	193,761
Selling, general and administrative expenses	171,250	4,463	3%	166,787	(8,605)	(5)%	175,392
Depreciation, amortization and accretion	142,913	7,978	6%	134,935	1,495	1%	133,440
Loss on asset disposals, net	1,949	1,483	>100%	466	466	N/M	
Total operating expenses	510,142	23,669	5%	486,473	(16,120)	(3)%	502,593
Total operating income	$ 89,385	$ (35,176)	(28)%	$ 124,561	$ (2,829)	(2)%	$ 127,390

N/M Percentage change not meaningful

Operating Revenues

Voice revenues (charges for the provision of local telephone exchange service and reselling long-distance service).

The decreases in Voice revenues in 2009 and 2008 were driven by successive declines in the average physical access lines served of 6% and 5%, which negatively impacted local service revenues by $10.6 million and $9.1 million, respectively. Second line disconnections accounted for 15% of the physical access line decline in 2009 and 28% in 2008 and in both years were significantly influenced by subscribers converting to digital subscriber line ("DSL") service. Additionally, local service and long-distance revenues decreased $9.9 million and $5.8 million in 2009 and 2008, respectively, due to discounts 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 added $2.6 million and $1.3 million to Voice revenues in 2009 and 2008, respectively.

Data revenues (charges for providing Internet and other data related services).

The growth in Data revenues in 2009 and in 2008 was primarily due to the growth in average DSL customers which grew by 18% and 27% in 2009 and 2008, respectively. These additional customers resulted in increased revenues of $13.7 million in 2009 and $14.9 million in 2008. Customers converting to higher DSL speeds drove the average revenue per customer higher, increasing revenues, net of bundling discounts, by $0.9 million and $4.2 million in 2009 and 2008 respectively. Increase in usage of other data products increased revenues by $1.6 million in 2009 and $2.0 million in 2008. These increases were partially offset by decreases in dial-up Internet revenue of $4.0 million and $2.5 million in 2009 and 2008, respectively, due to lower average number of subscribers partially offset by higher rates.

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Acquisitions added $1.4 million and $0.5 million to Data revenues in 2009 and 2008, respectively.

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 $7.0 million in 2009 and $11.3 million in 2008 due to declines in intra-state minutes of use of 12% and 17%, respectively. A reduction in expenses recoverable through the interstate pools also reduced access revenues by $1.6 million in 2009 and $3.4 million in 2008. Revenues from special access circuits also declined $3.0 million in 2009 due to customers choosing lower cost alternatives. Lower interstate usage also lowered 2009 access revenues by $1.9 million. Partially offsetting the decline for 2009 was the settlement of the National Exchange Carrier Association's interstate revenue pool for the years 2003 through 2006, which contributed $1.7 million to the 2009 revenues. In addition, TDS Telecom's election in July of 2007 to exit certain national network access pools resulted in an additional $4.1 million reduction in access revenues in 2008. The decision to exit these pools correspondingly reduced operating expenses by $7.8 million in 2008, and resulted in a positive impact on operating income of $3.7 million in 2008.

Acquisitions added $5.3 million and $1.9 million to Access revenues in 2009 and 2008, respectively.

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

Miscellaneous revenues are down primarily due to a decline in business systems sales. Acquisitions added $0.9 million and $0.5 million to Miscellaneous revenues in 2009 and 2008, respectively.

Operating Expenses

Cost of services and products

The increase in Cost of services and products in 2009 was primarily driven by the increased offering of incentives to attract new customers of $3.0 million and increased circuit bandwidth to support the growth in high-speed data products of $4.9 million. Higher employee related costs also contributed $1.4 million (including the impacts of severance and employee compensation modifications) to the increase. Cost of goods sold related to business systems sales decreased $1.6 million.

The reduction in cost of services and products expense in 2008 was primarily due to TDS Telecom's election to exit certain national network access pools in July 2007. As noted above under "Network access revenues," this decision decreased revenues by $4.1 million in 2008, while also reducing contributions to the pool by $7.8 million, resulting in a positive impact on operating income of $3.7 million. Additionally, the discontinuance of the accounting for regulatory enterprises prescribed by FASB Accounting Standards Codification 980 Regulated Operations ("FASB ASC 980") decreased costs by $1.0 million from 2007 to 2008. Under FASB ASC 980, telecommunications companies were required to recognize expenses associated with customer activation as incurred. Upon discontinuance of FASB ASC 980, costs associated with customer activation are required to be deferred and recognized over the estimated life of the subscriber.

Acquisitions added $3.5 million and $1.3 million to Cost of services and products in 2009 and 2008, respectively.

Selling, general and administrative expenses

The increase in Selling, general and administrative expenses in 2009 was primarily due to an increase in legal, sales and excise tax expenses arising from discrete matters totaling $3.1 million and severance of $1.8 million as a result of workforce reduction. Partially offsetting these charges were discrete events related to employee compensation modifications which reduced expenses $2.0 million. Also partially

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offsetting these increases were decreases in property taxes of $1.6 million, as well as a reduction in bad debts expense of $1.1 million.

The decrease in 2008 was primarily related to a reduction in payroll related costs of $8.2 million as well as other cost reduction efforts of $3.6 million. Partially offsetting these decreases was an increase in bad debt expense of $3.2 million caused by the reclassification of bad debts expense from miscellaneous revenues (where it was shown as a reduction in revenues) to an increase in Selling, general and administrative expense, as a result of the discontinuance of the application of FASB ASC 980 in the third quarter of 2007.

Acquisitions added $2.8 million and $1.0 million to Selling, general and administrative expense in 2009 and 2008, respectively.

Depreciation, amortization and accretion expense

ILEC acquisitions increased depreciation, amortization and accretion expense $4.5 million and $1.6 million in 2009 and 2008, respectively.

CLEC Operations

Components of Operating Income

Year Ended December 31,	2009	Increase (Decrease)	Percentage Change	2008	Increase (Decrease)	Percentage Change	2007
			(Dollars in thousands)				
Retail revenues	$ 178,611	$ (18,286)	(9)%	$ 196,897	$ (12,235)	(6)%	$ 209,132
Wholesale revenues	20,764	(2,341)	(10)%	23,105	(4,292)	(16)%	27,397
Total operating revenues	199,375	(20,627)	(9)%	220,002	(16,527)	(7)%	236,529
Cost of services and products (excluding depreciation, amortization and accretion reported below)	104,057	(5,400)	(5)%	109,457	(7,155)	(6)%	116,612
Selling, general and administrative expenses	67,283	(1,757)	(3)%	69,040	(13,043)	(16)%	82,083
Depreciation, amortization and accretion	24,403	972	4%	23,431	(591)	(2)%	24,022
Loss on asset disposals, net	452	61	16%	391	391	N/M	
Total operating expenses	196,195	(6,124)	(3)%	202,319	(20,398)	(9)%	222,717
Total operating income	$ 3,180	$ (14,503)	(82)%	$ 17,683	$ 3,871	28%	$ 13,812

N/M Percentage change not meaningful

Prior years amounts have been reclassified to conform to current year presentation.

Operating Revenues

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

Average CLEC equivalent access lines in service decreased 10% in 2009 and 8% in 2008, which resulted in decreases in Retail revenues of $19.4 million and $15.4 million, respectively. Average residential equivalent access lines decreased 26% in 2009 and 21% in 2008 as the CLEC operation continues to implement its strategic shift towards serving primarily a commercial subscriber base. The average equivalent access lines related to commercial customers declined 4% and 1% for the same periods. Average revenue per subscriber increased in both 2009 and 2008 resulting in higher revenues of $1.1 million and $3.5 million, respectively.

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

The decline in Wholesale revenues in 2009 was primarily driven by a 27% reduction in minutes of use partially offset by an increase in average rates resulting from a more favorable mixture of traffic carried. The decline in Wholesale revenues in 2008 was similarly driven by a 22% reduction in minutes of use.

Operating Expenses

Cost of services and products

Cost of services decreased by $7.0 million and $3.3 million in 2009 and 2008, respectively, primarily due to reductions in purchased network services, which have been driven by the decline in the residential customer base. The decrease in 2009 was partially offset by additional expenses of $1.6 million associated with the provisioning of managed Internet Protocol service to customers. Settlements with two inter-exchange carriers related to the pricing of certain services also reduced the cost of services in 2008 by $2.4 million. Additionally, lower circuit expenses primarily due to improvements made in the CLEC's network design decreased 2008 expenses by $1.1 million.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased in 2009 due primarily to decreased Universal Service Fund contribution expense of $1.3 million caused by the decreased customer base. Decreases in bad debts contributed an additional $0.6 million of cost reduction.

The decrease in 2008 was primarily due to cost containment efforts, primarily a reduction in payroll costs, which reduced expenses by $7.9 million in 2008. Also, residential advertising expense decreased $3.1 million as TDS Telecom realigned its expenditures to focus mainly on its commercial markets. In addition, a restructuring of commission compensation decreased expenses $2.0 million.

Depreciation, amortization and accretion

Depreciation, amortization and accretion expense increased $1.0 million during 2009 primarily due to accelerated depreciation expense on certain circuit equipment due to technological obsolescence.

INFLATION

Management believes that inflation affects TDS' business to no greater or lesser extent than the general economy.

RECENT ACCOUNTING PRONOUNCEMENTS

In general, recent accounting pronouncements did not have and are not expected to have a significant effect on TDS' financial condition and results of operations.

See Note 1   Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for information on recent accounting pronouncements.

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FINANCIAL RESOURCES

TDS operates a capital- and marketing-intensive business. TDS utilizes cash from its operating activities, cash proceeds from divestitures and disposition 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 2009, 2008 and 2007.

	2009	2008	2007
	(Dollars in thousands)		
Cash flows from (used in)			
Operating activities	$ 1,102,594	$ 848,892	$ 941,032
Investing activities	(781,446)	(902,752)	(627,855)
Financing activities	(427,465)	(343,277)	(152,056)
Net increase (decrease) in cash and cash equivalents	$ (106,317)	$ (397,137)	$ 161,121

Cash Flows From Operating Activities

The following table presents operating income before certain non-cash items and is included for purposes of analyzing changes in cash flows from operating activities:

	2009	2008	2007
	(Dollars in thousands)		
Operating income	$ 407,806	$ 128,154	$ 527,898
Non-cash items			
Depreciation, amortization and accretion	749,970	750,077	748,136
Loss on impairment of intangible assets	14,000	414,376	24,923
Loss on asset disposals, net	17,765	24,296	34,016
Operating income before certain non-cash items(1)	$ 1,189,541	$ 1,316,903	$ 1,334,973

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(1) Operating income before certain non-cash items 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. 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. See Note 19 Business Segment Information in the Notes to Consolidated Financial Statements. This amount may also be commonly referred to by management as operating cash flow.

Cash flows from operating activities in 2009 were $1,102.6 million, an increase of $253.7 million from 2008. Significant changes included the following:

- Operating cash flow, as shown in the table above, decreased by $127.4 million.

A $417.0 million decrease in income tax payments. Income tax payments, net of refunds, were $53.0 million and $470.0 million in 2009 and 2008, respectively. Income tax payments were higher in 2008 compared to 2009 primarily due to tax gains realized on the disposition of Deutsche Telekom marketable equity securities and related variable prepaid forward contracts during 2008; as well as a year-over-year decrease in forecasted income and an overpayment of income taxes in 2008.

In 2009, a $38.0 million deposit was paid to the Internal Revenue Service (IRS) to eliminate any potential interest due to the IRS subsequent to the date of the deposit. The deposit was recorded in Change in other assets and liabilities in the Consolidated Statement of Cash Flows in 2009. See Note 4 Income Taxes for additional information.

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Cash flows from operating activities in 2008 were $848.9 million, a decrease of $92.1 million from 2007. Significant changes included the following:

- A $160.3 million decrease in interest and dividend income offset by a $70.8 million decrease in interest expense. See "Results of Operations Consolidated" for an explanation of these changes;

- A $30.9 million decrease in income tax payments. Income tax payments in 2008 and 2007 were $470.0 million and $500.9 million, respectively. The decrease in income tax payments during 2008 was primarily attributable to the timing of the disposition of marketable equity securities and the settlement of variable prepaid forward contracts during 2008 relative to 2007; and

- A $31.0 million decrease in the net cash flow related to Changes in assets and liabilities from operations other than accrued taxes. Such changes in assets and liabilities required cash of $96.1 million in 2008 and $65.1 million in 2007. The most significant change related to inventory which required $17.1 million in 2008 and provided $16.8 million in 2007. The change was attributable to more handsets on hand at December 31, 2008 relative to December 31, 2007, partially as a result of additional retail stores that commenced operations during 2008.

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 $671.2 million in 2009, $734.9 million in 2008 and $699.6 million in 2007. 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 $546.8 million in 2009, $585.6 million in 2008 and $565.5 million in 2007 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 $98.3 million in 2009, $120.9 million in 2008 and $111.8 million in 2007 representing expenditures to upgrade plant and equipment to provide enhanced services. TDS Telecom's capital expenditures for its CLEC operations totaled $22.2 million in 2009, $19.8 million in 2008 and $16.4 million in 2007 for switching and other network facilities; and

- Corporate and other capital expenditures totaled $3.9 million in 2009, $8.6 million in 2008 and $5.9 in 2007.

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Acquisitions required cash payments of $29.3 million in 2009, $389.2 million in 2008 and $23.8 million in 2007, respectively, as summarized below:

Cash Payment for Acquisitions(1)	2009	2008	2007
	(Dollars in millions)		
Auction 73 licenses(2)	$	$ 300.5	$
All other U.S. Cellular licenses	15.8	32.3	3.2
TDS Telecom ILEC business acquisitions	13.2	47.4	
U.S. Cellular business acquisitions(3)		8.9	18.3
Other	0.3	0.1	2.3
Total	$ 29.3	$ 389.2	$ 23.8

(1) Cash amounts paid for the acquisitions may differ from the purchase price due to cash acquired in the transactions and working capital adjustments as of December 31 of the respective year.

(2) King Street Wireless L.P., an entity in which a subsidiary of U.S. Cellular is a limited partner with a 90% partnership interest, made these payments. U.S. Cellular loaned these funds to the partnership and the general partner and made direct capital investments to fund the auction payment.

(3) For purposes of presentation in this table, this line item includes the purchase of an entire business or the purchase of additional interests in entities already partially owned by U.S. Cellular.

TDS realized cash proceeds of $226.6 million in 2008 from the sale of Deutsche Telekom Ordinary Shares offset by $17.4 million in cash payments to settle the collar portion of certain variable prepaid forward contracts related to such shares. TDS settled these variable prepaid forward contracts through both the delivery of Deutsche Telekom Ordinary Shares and cash. In addition, in 2008, TDS realized cash proceeds of $32.4 million from the disposition of Rural Cellular Corporation ("RCC") Common Shares held by TDS in conjunction with Verizon Wireless' acquisition of RCC.

TDS realized cash proceeds of $92.0 million in 2007 related to the sale of VeriSign Inc. Common Shares, a portion of Deutsche Telekom Ordinary Shares and Vodafone American Depository Receipts ("ADRs") in conjunction with the settlements of variable prepaid forward contracts related to such shares. TDS settled these variable prepaid forward contracts through the delivery of a substantial majority of the VeriSign, Deutsche Telekom and Vodafone shares subject to such forward contracts, and then sold the remaining shares subject to these same contracts.

See Note 10 Marketable Equity Securities and Variable Prepaid Forward Contracts in the Notes to Consolidated Financial Statements for additional details on 2008 and 2007 marketable equity securities transactions and variable prepaid forward contract settlements.

TDS invested $109.2 million and $27.4 million in certificates of deposit in 2009 and 2008. No certificates of deposit were purchased in 2007. Cash proceeds of $23.7 million were received in 2009 from redemption of certain certificates of deposit.

Cash Flows From Financing Activities

Cash flows from financing activities primarily reflect issuances and repayments on revolving credit facilities, proceeds from issuance of long-term debt, cash used for repayments of long-term debt, distributions to noncontrolling interests, repurchases of TDS and U.S. Cellular shares, and cash proceeds from reissuance of common shares pursuant to stock-based compensation plans. TDS has used short-term debt to finance acquisitions, to repurchase shares and for other general corporate purposes. Cash flows from operating activities, proceeds from settlements of variable prepaid forward contracts and, from time to time, the sale of non-strategic wireless and other investments have been used to reduce debt.

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TDS' payment to settle the debt portion of certain variable prepaid forward contracts related to Deutsche Telekom Ordinary Shares totaled $47.4 million in 2008. All variable prepaid forward contracts were settled in 2008, and TDS did not settle any variable prepaid forward contracts by payment of cash in 2007.

There were no short-term borrowings or repayments during 2009. Borrowings under revolving credit facilities primarily to fund capital expenditures and licenses totaled $100.0 million in 2008 and $25.0 million in 2007, while repayments under the revolving credit facilities totaled $100.0 million in 2008 and $60.0 million in 2007.

In 2009, U.S. Cellular redeemed its outstanding 8.75% senior notes for their principal amount of $130.0 million and retired its 9% installment notes payable in the amount of $10.0 million. There were no redemptions of long-term debt in 2008 or 2007.

The re-issuance of TDS and U.S. Cellular treasury shares in connection with employee benefits plans, net of tax payments made on behalf of stock award holders, provided $0.7 million in 2009, required $0.9 million in 2008 and provided $123.7 million in 2007. 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 exercise price and/or 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.

In 2009, TDS repurchased Special Common Shares and Common Shares for $176.6 million. In 2008, TDS repurchased Special Common Shares and Common Shares for $199.6 million. A total of $197.7 million was paid in cash before December 31, 2008 and $1.9 million was paid in January 2009. In 2007, TDS repurchased Special Common Shares for $126.7 million.

In 2009, U.S. Cellular repurchased Common Shares at an aggregate cost of $33.6 million. In 2008, U.S. Cellular repurchased Common Shares at an aggregate cost of $32.9 million. U.S. Cellular also received $4.6 million in 2008 from an investment banking firm for the final settlement of Accelerated Share Repurchases ("ASR") made in 2007. In 2007, U.S. Cellular purchased Common Shares for $87.9 million from an investment banking firm in connection with three ASR programs. As discussed above, in 2008, U.S. Cellular received $4.6 million from the investment banking firm in final settlement of the ASR programs; thus, the net cost of Common Shares purchased pursuant to such programs was $83.3 million. See Note 17 Common Stockholders' Equity in the Notes to Consolidated Financial Statements for additional information related to these transactions.

LIQUIDITY AND CAPITAL RESOURCES

TDS believes that existing cash balances, expected cash flows from operating activities and funds available under its new 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 affect on its liquidity or capital resources will not occur. Economic conditions, changes in financial markets or other factors could restrict its 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

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programs. Such reductions could have a material adverse effect on TDS' business, financial condition or results of operations.

Cash and Cash Equivalents

At December 31, 2009, TDS had $671.0 million in cash and cash equivalents, which include cash and short-term, highly liquid 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 December 31, 2009, TDS invested substantially all of its cash balances in money market funds that invested exclusively in short-term U.S. Treasury securities or repurchase agreements backed by U.S. Treasury securities. TDS monitors the financial viability of the money market funds in which it invests and believes that the credit risk associated with these investments is low.

Short-Term Investments

As of December 31, 2009 and 2008, TDS held certificates of deposit totaling $113.3 million and $27.7 million, respectively, which were included in Short-term investments in the Consolidated Balance Sheet. At December 31, 2009, these certificates of deposit had original maturities of between 120 days and one year on the dates TDS acquired these certificates of deposit and earn interest at annual rates between 0.50% and 1.75%.

Revolving Credit Facilities

TDS and U.S. Cellular have revolving credit facilities available for general corporate purposes. On June 30, 2009, TDS entered into a new $400 million revolving credit agreement with certain lenders and other parties and U.S. Cellular entered into a new $300 million revolving credit agreement with certain lenders and other parties. At December 31, 2009, 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 new 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 new revolving credit facility. At December 31, 2009, no U.S. Cellular debt was subordinated pursuant to this subordination agreement. See Note 14 Debt in the Notes to Consolidated Financial Statements for the details of these revolving credit facilities and the subordination agreement.

TDS' and U.S. Cellular's interest cost on their new revolving credit facilities is subject to increase if their current credit ratings from Standard & Poor's Rating Services, Moody's Investors Service and/or Fitch Ratings are lowered and is subject to decrease if the ratings are raised. The new 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 new credit facilities or obtain access to other credit facilities in the future.

TDS' and U.S. Cellular's credit ratings as of December 31, 2009, and the dates that such ratings were issued/re-affirmed were as follows:

Moody's (re-affirmed September 21, 2009)	Baa2	stable outlook
Standard & Poor's (re-affirmed September 18, 2009)	BBB-	positive outlook
Fitch Ratings (issued August 20, 2009)	BBB+	negative outlook

The continued availability of the new 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

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they were in compliance as of December 31, 2009 with all covenants and requirements set forth in their new revolving credit facilities.

Long-Term Financing

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 December 31, 2009 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 next five years represent less than 1% of the total long-term debt obligation at December 31, 2009. Refer to the section Market Risk Long-Term Debt 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.

In December 2009, U.S. Cellular redeemed in whole its $130.0 million senior notes which carried an interest rate of 8.75%. These notes were scheduled to mature in 2032.

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 $140 million to upgrade plant and equipment to provide enhanced services.

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

Suppliers

TDS depends upon certain key suppliers to provide it with handsets, equipment, services or content to continue its network build and upgrade and to operate its business. TDS does not have operational or financial control over any of such key suppliers and has limited influence with respect to the manner in which these key suppliers conduct their businesses. If these key suppliers experience financial difficulties and are unable to provide equipment, services or content to TDS on a timely basis or cease to provide such equipment, services or content or if such key suppliers otherwise fail to honor their obligations to TDS, TDS may be unable to maintain and upgrade its network or provide services to its customers in a

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competitive manner, or could suffer other disruptions to its business. In that event, TDS' business, financial condition or results of operations could be adversely affected. TDS monitors the financial condition of its key suppliers through its risk management process.

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. 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 from time to time may be engaged 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 8 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for details on significant transactions in 2009, 2008 and 2007.

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 6 Variable Interest Entities 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 repurchase programs. For additional information related to the current TDS and U.S. Cellular repurchase authorizations and repurchases made during 2009, 2008 and 2007, see Note 17 Common Stockholders Equity in the Notes to Consolidated Financial Statements.

Contractual and Other Obligations

At December 31, 2009, the resources required for contractual obligations were as follows:

	Payments Due by Period				
	Total	Less than 1 Year	2 - 3 Years	4 - 5 Years	More than 5 Years
	(Dollars in millions)				
Long-term debt obligations(1)	$ 1,501.2	$ 2.2	$ 5.9	$ 0.1	$ 1,493.0
Interest payments on long-term debt obligations	2,967.1	107.3	214.5	213.9	2,431.4
Operating leases(2)	1,100.2	148.0	237.2	148.9	566.1
Capital leases	9.6	0.8	1.5	1.1	6.2
Purchase obligations(3)	777.8	451.8	206.8	79.4	39.8
	$ 6,355.9	$ 710.1	$ 665.9	$ 443.4	$ 4,536.5

(1)

Includes current and long-term portions of debt obligations. The total long-term debt obligation differs from Long-term debt on the Consolidated Balance Sheet due to the $10.8 million unamortized discount related to U.S. Cellular's 6.7% senior notes and capital leases. See Note 14 Debt in the Notes to Consolidated Financial Statements.

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(2) Represents the amounts due under non-cancellable long-term operating leases for the periods specified. See Note 16 Commitments and Contingencies in the Notes to Consolidated Financial Statements.

(3) Includes obligations payable under non-cancellable contracts, commitments for network facilities and services, agreements for software licensing and long-term marketing programs.

The table above does not include any liabilities related to "unrecognized tax benefits" as defined by GAAP because TDS is unable to predict the period of settlement of such liabilities. Such unrecognized tax benefits were $45.0 million at December 31, 2009. See Note 4 Income Taxes in the Notes to Consolidated Financial Statements for additional information on unrecognized tax benefits.

Off-Balance Sheet Arrangements

TDS has no transactions, agreements or other contractual arrangements with unconsolidated entities involving "off-balance sheet arrangements," as defined by Securities and Exchange Commission rules, that have 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.

Insurance

TDS has several commercial property and casualty insurance policies with a variety of subsidiary companies of American International Group, Inc. ("AIG"). These companies operate under the insurance regulations of various states including New York, Pennsylvania and Delaware. TDS has inquired into the ability of these AIG companies to meet their obligations in the event of a claim against these policies and has received assurance from AIG and TDS' insurance brokers that the companies remain able to meet these obligations. State insurance regulators and the rating agencies have issued press releases indicating the same. TDS did not have any significant property and casualty claims outstanding with these companies as of December 31, 2009. TDS continues to monitor the financial condition of these and other insurance providers.

Dividends

TDS paid quarterly dividends per share of $0.1075 in 2009, $0.1025 in 2008 and $0.0975 in 2007. TDS increased the dividend per share to $0.1125 in the first quarter of 2010. TDS has no current plans to change its policy of paying dividends.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

TDS prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("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.

Management believes the application of the following critical accounting policies and the estimates required by such application reflect its most significant judgments and estimates used in the preparation of TDS' consolidated financial statements. Management has discussed the development and selection of each of the following accounting policies and related estimates and disclosures with the Audit Committee of TDS' Board of Directors.

Goodwill and Licenses

As of December 31, 2009, the carrying values of TDS' goodwill and licenses were $707.8 million and $1,443.0 million, respectively. Licenses include those won by Carroll Wireless, Barat Wireless, King Street Wireless and Aquinas Wireless in various FCC auctions, as discussed in Note 6 Variable Interest Entities in the Notes to Consolidated Financial Statements.

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See Note 9 Licenses and Goodwill in the Notes to Consolidated Financial Statements for additional information related to goodwill and licenses activity in 2009 and 2008.

Goodwill and licenses must be assessed for impairment annually or more frequently if events or changes in circumstances indicate that such assets might be impaired.

The impairment test for goodwill is a two-step process. The first step compares the fair value of the reporting unit as identified to its carrying value. If the carrying amount exceeds the fair value, the second step of the test is performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. To calculate the implied fair value of goodwill in this second step, an enterprise allocates the fair value of the reporting unit to all of the assets and liabilities of that reporting unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amount assigned to the assets and liabilities of the reporting unit represents the implied fair value of goodwill. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized for that difference.

The impairment test for an intangible asset other than goodwill consists of comparing the fair value of the intangible asset to its carrying amount. If the carrying amount exceeds the fair value, an impairment loss is recognized for the difference.

Quoted market prices in active markets are the best evidence of fair value of an asset or reporting unit and are used when available. If quoted market prices are not available, the estimate of fair value is based on the best information available, including prices for similar assets and the use of other valuation techniques. Other valuation techniques include present value analysis, multiples of earnings or revenues, or similar performance measures. The use of these techniques involves assumptions by management about factors that are uncertain including future cash flows, the appropriate discount rate and other inputs. Different assumptions for these inputs could create materially different results.

As discussed below, TDS completed its required annual impairment assessment of goodwill and licenses for 2009 as of November 1. In connection with that assessment, TDS determined that no impairment existed related to goodwill, and recognized an impairment loss in the amount of $14.0 million related to licenses. There can be no assurance that upon review at a later date material impairment charges will not be required.

Historically, TDS completed the required annual impairment assessment of its licenses and goodwill in the second quarter of each year. Effective April 1, 2009, TDS adopted a new accounting policy whereby its annual impairment review of goodwill and indefinite-lived intangible assets will be performed as of November 1 instead of the second quarter of each year, as discussed in Note 1 Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements. Accordingly, TDS performed its annual impairment test for 2009 as of November 1, 2009 whereas its annual impairment test for 2008 was performed in the second quarter. In 2008, however, as a result of deterioration in the credit and financial markets and the accelerated decline in the overall economy in the fourth quarter of 2008, TDS performed another impairment assessment of licenses and goodwill as of December 31, 2008. Accordingly, the following discussion compares the impairment test as of November 1, 2009 to December 31, 2008.

Goodwill

U.S. Cellular

U.S. Cellular tests goodwill for impairment at the level of reporting referred to as a "reporting unit." For purposes of impairment testing of goodwill in 2009, U.S. Cellular identified five reporting units based on geographic service areas. There were no changes to U.S. Cellular's reporting units, the allocation of goodwill to U.S. Cellular's reporting units, or to U.S. Cellular's overall goodwill impairment testing

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methodology between its two most recent impairment testing dates, November 1, 2009 and December 31, 2008.

A discounted cash flow approach was used to value each reporting unit, using value drivers and risks specific to the current industry and economic markets. The cash flow estimates incorporated assumptions that market participants would use in their estimates of fair value. Key assumptions made in this process were the revenue growth rate, discount rate, and projected capital expenditures. These assumptions were as follows as of the two most recent impairment testing dates:

Key assumptions	November 1, 2009	December 31, 2008
Weighted-average expected revenue growth rate (next four years)	2.13%	2.69%
Weighted-average long-term and terminal revenue growth rate (after year four)	2.00%	2.00%
Discount rate	11.50%	10.50%
Average annual capital expenditures (millions)	$ 520	$ 556

The increase in the discount rate between December 31, 2008 and November 1, 2009 was primarily a result of the company-specific risk premium ("CSRP") applied to the cost of equity calculation. The selection of the higher CSRP was based on a variety of factors including the risks associated with the underlying projections relative to the market and the specific risk factors facing U.S. Cellular such as the highly concentrated and competitive nature of the market. U.S. Cellular believes a market participant would include this CSRP when estimating the discount rate.

As of November 1, 2009, the fair values of the reporting units exceeded their respective carrying values by amounts ranging from 41% to 101% of the respective carrying values. Therefore, no impairment of goodwill existed. Given that the fair values of the respective reporting units significantly exceeded their respective carrying values, the terminal growth rate assumptions would need to decrease to negative amounts, ranging from negative 24% to negative 135%, in order to yield estimated fair values equal to the carrying values of the respective reporting units at November 1, 2009.

The carrying value of each U.S. Cellular reporting unit as of December 31, 2009 was as follows:

Reporting unit	Carrying value (Dollars in millions)
Central Region	$ 1,094
Mid-Atlantic Region	677
New England Region	222
New York Region	126
Northwest Region	318
Total	$ 2,437

TDS Telecom

TDS Telecom has three reporting units: ILEC and CLEC (Metrocom and Metrocom Minnesota). The CLEC reporting units do not have any goodwill allocated to them due to a write-off of all remaining goodwill in 2004. TDS Telecom's ILEC reporting unit has recorded goodwill primarily as a result of the acquisition of operating telephone companies. There were no changes to TDS Telecom's reporting units, the allocation of goodwill to TDS Telecom's ILEC reporting unit, or to TDS Telecom's overall goodwill impairment testing assumptions or methodology during 2009 or 2008.

For the purposes of impairment testing, the publicly-traded guideline company method and the recent transaction method were utilized. The publicly-traded guideline company method develops an indication

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of fair value by calculating average market pricing multiples for selected publicly-traded companies using multiples of revenue, EBITDA (earnings before interest, taxes, depreciation and amortization), EBITDA less capital expenditures, and access lines. The recent transaction method calculates market pricing multiples based upon recent acquisitions of similar businesses. In both methods, the developed multiples were applied to the appropriate financial measure of TDS Telecom's ILEC reporting unit to determine the reporting unit's fair value. Given the nature of this methodology, no specific consideration of the economic environment was considered since those factors would be implicit in the multiples used. As of November 1, 2009, the fair value of TDS Telecom's ILEC reporting unit exceeded its carrying value by 41%.

Licenses

U.S. Cellular tests licenses for impairment at the level of reporting referred to as a "unit of accounting." For purposes of its impairment testing of licenses as of December 31, 2008 and November 1, 2009, U.S. Cellular separated its FCC licenses into eighteen units of accounting based on geographic service areas. Thirteen of these eighteen units of accounting represented geographic groupings of licenses which, because they were not being utilized and, therefore, were not expected to generate cash flows from operating activities in the foreseeable future, were considered separate units of accounting for purposes of impairment testing.

Developed operating market licenses ("built licenses")

As indicated in Note 1 Summary of Significant Accounting Policies and Recent Accounting Pronouncements Goodwill and Licenses Impairment Assessment, in 2009 U.S. Cellular changed its method of estimating the fair value of built licenses for purposes of impairment testing from the multiple period excess cash flow method ("MPECF method") to the build-out method. U.S. Cellular elected to make this change as the build-out method is a more widely used and accepted valuation method in estimating the fair value of licenses for purposes of impairment testing in the wireless industry. U.S. Cellular does not believe the build-out method yields a significantly different estimate of the fair value of licenses than the MPECF method.

Significant assumptions within the build-out method include the hypothetical build-out period, discount rate, long-term EBITDA margin, penetration rate, revenue growth rate, new subscriber costs, and capital expenditure and maintenance requirements. The penetration rate, revenue growth rate, new subscriber costs, and capital expenditure and maintenance requirements varied among the different units of accounting and between years within the forecast periods. The following key assumptions were applied consistently across all units of accounting for purposes of the November 1, 2009 licenses impairment assessment:

Key assumptions	
Build-out period	7 years
Discount rate	10.0%
Long-term EBITDA margin	32.7%

The discount rate used in the license valuation is less than the discount rate used in the valuation of reporting units for purposes of goodwill impairment testing due to reduced risk. Specifically, from a market participant perspective, the risks inherent in owning a specific wireless license are less than those associated with owning and operating an entire wireless business.

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The discount rate is the most significant assumption in both the MPECF method and the build-out method. The discount rate is estimated based on the overall risk-free interest rate adjusted for industry participant information, such as a typical capital structure (i.e., debt-equity ratio), the after-tax cost of debt and the cost of equity. The cost of equity takes into consideration the average risk specific to individual market participants and the specific risk to U.S. Cellular. The discount rates used for the licenses impairment tests at December 31, 2008 (under the MPECF method) and November 1, 2009 (under the build-out method) were 9.5% and 10.0%, respectively. The increase in the discount rate between these two dates was primarily a result of the company-specific risk premium ("CSRP") applied to the cost of equity calculation. The selection of the higher CSRP was based on a variety of specific risk factors facing U.S. Cellular including the risks associated with the underlying projections relative to the market, and the highly concentrated and competitive nature of the market.

The results of the licenses impairment test at November 1, 2009 resulted in the recognition of a loss on impairment of $14.0 million. If the discount rate had increased by 1.0% to 11.0%, the impairment loss would have increased by $657 million; if the discount rate had decreased by 1.0% to 9.0%, no impairment loss would have been recognized.

Non-operating market licenses ("unbuilt licenses")

For purposes of performing impairment testing of unbuilt licenses, U.S. Cellular prepares estimates of fair value by reference to prices paid in recent auctions and market transactions where available. If such information is not available, the fair value of the unbuilt licenses is assumed to have changed by the same percentage, and in the same direction, that the fair value of built licenses measured using the build-out method changed during the period. None of the $14.0 million total impairment loss recognized as a result of the November 1, 2009 licenses impairment test related to unbuilt licenses.

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Carrying Value of Licenses

The carrying value of licenses at December 31, 2009 was as follows:

Unit of accounting	Carrying value (Dollars in millions)
U.S. Cellular Operating markets (5 units of accounting)	
Central Region	$ 623
Mid-Atlantic Region	197
New England Region	80
Northwest Region	57
New York Region	1
U.S. Cellular Non-operating markets (13 units of accounting)	
Central (3 states)	103
South Central (3 states)	5
North Central (3 states)	27
Southwest Central I (3 states)	8
Southwest Central II (4 states)	24
Northwest Central I (5 states)	14
Northwest Central II (5 states)	151
Mid-Atlantic I (3 states)	35
Mid-Atlantic II (7 states)	37
Mississippi Valley (14 states)	44
Northeast (4 states)	24
North Northwest (2 states)	4
South Northwest (2 states)	6
Total	$ 1,440
TDS Telecom	3
Total	$ 1,443

Due to the recently recorded impairment charges, $57 million of these licenses were recorded at fair value as of December 31, 2009. In addition, licenses with an aggregate carrying value of $1,105 million were in units of accounting where the fair value exceeded the carrying value by amounts less than 10% of the carrying value. Therefore, TDS believes that there is an increased likelihood that any declines in the fair value of such licenses in future periods would result in the recognition of impairment losses on such licenses in future periods, and any such impairment losses would have a negative impact on future results of operations. The impairment losses on licenses are not expected to have a future impact on liquidity. TDS is unable to predict the amount, if any, of future impairment losses attributable to licenses. Further, historical operating results, particularly amounts related to impairment losses, are not indicative of future operating results.

Property, Plant and Equipment Depreciation

U.S. Cellular and TDS Telecom each provide for depreciation using the straight-line method over the estimated useful lives of the assets. Prior to the third quarter of 2007, TDS Telecom's ILEC operations followed accounting for regulated enterprises providing for depreciation according to depreciable rates approved by state public utility commissions. In 2007, management determined that it was no longer appropriate to continue the application of this accounting for reporting its financial results. See Note 5 Extraordinary Item in the Notes to Consolidated Financial Statements for additional details. TDS depreciates its leasehold improvement assets associated with leased properties over periods ranging

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from one to thirty years, which approximates the shorter of the assets' economic lives or the specific lease terms.

Annually, U.S. Cellular and TDS Telecom review their property, plant and equipment lives to ensure that the estimated useful lives are appropriate. The estimated useful lives of property, plant and equipment are critical accounting estimates because changing the lives of assets can result in larger or smaller charges for depreciation expense. Factors used in determining useful lives include technology changes, regulatory requirements, obsolescence and types of use.

U.S. Cellular and TDS Telecom did not materially change the useful lives of their property, plant and equipment in 2009, 2008 or 2007.

Income Taxes

The amounts of income tax assets and liabilities, the related income tax provision and the amount of unrecognized tax benefits are critical accounting estimates because such amounts are significant to TDS' financial condition and results of operations.

The preparation of the consolidated financial statements requires TDS to calculate a provision for income taxes. This process involves estimating the actual current income tax liability together with assessing temporary differences resulting from the different treatment of items for tax purposes, as well as estimating the impact of potential adjustments to tax returns filed and to be filed. These temporary differences result in deferred income tax assets and liabilities, which are included in the Consolidated Balance Sheet. TDS must then assess the likelihood that deferred income tax assets will be realized based on future taxable income and, to the extent management believes that realization is not likely, establish a valuation allowance. Management's judgment is required in determining the provision for income taxes, deferred income tax assets and liabilities and any valuation allowance that is established for deferred income tax assets.

TDS recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

See Note 4 Income Taxes in the Notes to Consolidated Financial Statements for details regarding TDS' income tax provision, deferred income taxes and liabilities, valuation allowances and unrecognized tax benefits, including information regarding estimates that impact income taxes.

Allowance for Doubtful Accounts

U.S. Cellular's accounts receivable primarily consist of amounts owed by customers pursuant to service contracts and for equipment sales, by agents for sales of equipment to them and by other wireless carriers whose customers have used U.S. Cellular's wireless systems.

TDS Telecom's accounts receivable primarily consist of amounts owed by customers for services provided, by connecting companies for carrying interstate and intrastate long-distance traffic on its network and by interstate and intrastate revenue pools that distribute access charges.

The allowance for doubtful accounts is the best estimate of the amount of probable credit losses related to existing accounts receivable. The allowance is estimated based on historical experience and other factors that could affect collectability. Accounts receivable balances are reviewed on either an aggregate or individual basis for collectability depending on the type of receivable. When it is probable that an account balance will not be collected, the account balance is charged against the allowance for doubtful accounts. TDS does not have any off-balance sheet credit exposure related to its customers. TDS will

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continue to monitor its accounts receivable balances and related allowance for doubtful accounts on an ongoing basis to assess whether it has adequately provided for potentially uncollectible amounts.

See Note 1 Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for additional information regarding TDS' allowance for doubtful accounts.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following persons are partners of Sidley Austin LLP, the principal law firm of TDS and its subsidiaries: Walter C.D. Carlson, a trustee and beneficiary of a voting trust that controls TDS, the non-executive Chairman of the Board and member of the Board of Directors of TDS and a director of U.S. Cellular, a subsidiary of TDS; William S. DeCarlo, the General Counsel of TDS and an Assistant Secretary of TDS and certain subsidiaries of TDS; and Stephen P. Fitzell, the General Counsel of U.S. Cellular and TDS Telecommunications Corporation and an Assistant Secretary of certain subsidiaries of TDS. Walter C.D. Carlson does not provide legal services to TDS or its subsidiaries. TDS, U.S. Cellular and their subsidiaries incurred legal costs from Sidley Austin LLP of $13.8 million in 2009, $12.0 million in 2008 and $11.2 million in 2007.

On May 29, 2009, TDS repurchased 1,730,200 Special Common Shares at the then current market price on the New York Stock Exchange ("NYSE") for a total price of $48.2 million, or an average of $27.89 per Special Common Share including broker fees, from an affiliate of Southeastern Asset Management, Inc. ("SEAM"). In addition, on July 20, 2009, TDS repurchased 405,000 Special Common Shares from SEAM at a price below the then current market price on the NYSE for a total price of $10.5 million, or an average of $25.87 per Special Common Share including broker fees.

At the time, SEAM was a shareholder of more than 5% of TDS Special Common Shares and Common Shares, and currently continues to hold more than 5% of the Special Common Shares. See "Security Ownership by Certain Beneficial Owners" in TDS' Notice of Annual Meeting and Proxy Statement filed with the SEC on April 28, 2009 for further information about SEAM and its interest in TDS. These transactions were not solicited by TDS and TDS did not enter into any agreements with SEAM. The May 29, 2009 transaction was effected by TDS' broker pursuant to TDS' existing institutional brokerage account agreement on the NYSE in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended ("Exchange Act"). The July 20, 2009 transaction was made by TDS' broker pursuant to an agreement entered into pursuant to Rule 10b5-1 under the Exchange Act and was effected on the NYSE in compliance with Rule 10b-18. The repurchases were made under TDS' share repurchase authorization that was effective at the time of such repurchases.

The Audit Committee of the Board of Directors is responsible for the review and evaluation 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 Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain statements that are not based on historical facts, including the words "believes," "anticipates," "intends," "expects" and similar words. These statements constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. 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 factors include, but are not limited to, the following risks:

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' system infrastructure may not be capable of supporting changes in technologies and services expected by customers, which could result in lost customers and revenues.

An inability to obtain or maintain roaming arrangements with other carriers on terms that are acceptable to TDS could have an adverse effect on TDS' business, financial condition or results of operations.

TDS currently receives a significant amount of roaming revenues from its wireless business. As a result of acquisitions by other companies in the wireless industry, TDS roaming revenues have declined significantly from amounts earned in certain prior years. Further industry consolidation and continued build outs by 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.

To the extent conducted by the FCC, TDS is likely to participate in FCC auctions of additional spectrum in the future as an applicant or as a non-controlling partner in another auction applicant and, during certain periods, will be subject to the FCC's anti-collusion rules, which could have an adverse effect on TDS.

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.

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

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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 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 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 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.

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Certain matters, such as control by the TDS Voting Trust and provisions in the TDS Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of TDS.

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

You are referred to a further discussion of these risks as set forth under "Risk Factors" in TDS' Annual Report on Form 10-K for the year ended December 31, 2009. TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Readers should evaluate any statements in light of these important factors.

MARKET RISK

Long-Term Debt

As of December 31, 2009, TDS' long-term debt was in the form of fixed-rate notes with original maturities ranging up to 40 years. Fluctuations in market interest rates can lead to significant fluctuations in the fair value of these fixed-rate notes.

The following table presents the scheduled principal payments on long-term debt and capital lease obligations, and the related weighted average interest rates by maturity dates at December 31, 2009:

	Principal Payments Due by Period	
(Dollars in millions)	**Long-Term Debt Obligations(1)**	**Weighted-Avg. Interest Rates on Long-Term Debt Obligations(2)**
2010	$ 2.5	5.2%
2011	1.6	5.1%
2012	4.9	5.9%
2013	0.3	5.5%
2014	0.2	7.8%
After 5 years	1,496.7	7.2%
Total	$ 1,506.2	7.2%

(1) The total long-term debt obligation amount is different than the total long-term debt amount shown on the Consolidated Balance Sheet due to the $10.8 million unamortized discount related to U.S. Cellular's 6.7% senior notes. See Note 14 Debt in the Notes to Consolidated Financial Statements for additional information.

(2) Represents the weighted average interest rates at December 31, 2009, for debt maturing in the respective periods. At December 31, 2008, the total weighted average interest rate on long-term debt obligations was 7.3%.

Fair Value of Long-Term Debt

At December 31, 2009 and 2008, the estimated fair value of long-term debt obligations was $1,462.0 million and $1,035.6 million, respectively. The fair value of long-term debt other than capital lease obligations and the current portion of such long-term debt was estimated using market prices for TDS' 7.6% Series A Notes, 6.625% senior notes, and U.S. Cellular's 7.5% senior notes and discounted cash flow analysis for the remaining debt. U.S. Cellular's 8.75% senior notes were redeemed in December 2009.

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Consolidated Statement of Operations

Year Ended December 31,	2009	2008	2007
	(Dollars and shares in thousands, except per share amounts)		
Operating revenues	$ 5,020,674	$ 5,092,019	$ 4,828,984
Operating expenses			
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	1,864,426	1,853,686	1,693,531
Selling, general and administrative expense	1,966,707	1,921,430	1,800,480
Depreciation, amortization and accretion expense	749,970	750,077	748,136
Loss on impairment of intangible assets	14,000	414,376	24,923
Loss on asset disposals, net	17,765	24,296	34,016
Total operating expenses	4,612,868	4,963,865	4,301,086
Operating income	407,806	128,154	527,898
Investment and other income (expense)			
Equity in earnings of unconsolidated entities	90,732	89,812	91,831
Interest and dividend income	11,121	39,131	199,435
Interest expense	(124,557)	(137,899)	(208,736)
Gain on investments and financial instruments		31,595	81,423
Other, net	2,000	2,213	(6,401)
Total investment and other income (expense)	(20,704)	24,852	157,552
Income before income taxes and extraordinary item	387,102	153,006	685,450
Income tax expense	133,376	30,093	269,054
Income before extraordinary item	253,726	122,913	416,396
Extraordinary item, net of tax (Note 5)			42,827
Net income	253,726	122,913	459,223
Less: Net income attributable to noncontrolling interests, net of tax	(59,824)	(29,372)	(73,111)
Net income attributable to TDS shareholders	193,902	93,541	386,112
Preferred dividend requirement	(51)	(52)	(52)
Net income available to common	$ 193,851	$ 93,489	$ 386,060
Basic weighted average shares outstanding	109,339	115,817	117,624
Basic earnings per share attributable to TDS shareholders (Note 7)			
Net Income before extraordinary item attributable to TDS Shareholders	$ 1.77	$ 0.81	$ 2.92
Extraordinary item			0.36
Net Income available to common	$ 1.77	$ 0.81	$ 3.28

Diluted weighted average shares outstanding	109,577	116,255	119,126
Diluted earnings per share attributable to TDS shareholders (Note 7)			
Net Income before extraordinary item attributable to TDS Shareholders	$ 1.77	$ 0.80	$ 2.86
Extraordinary item			0.36
Net Income available to common	$ 1.77	$ 0.80	$ 3.22
Dividends per share	$ 0.43	$ 0.41	$ 0.39

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

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Telephone and Data Systems, Inc.

Consolidated Statement of Cash Flows

Year Ended December 31,	2009	2008	2007
	(Dollars in thousands)		
Cash flows from operating activities			
Net income	$ 253,726	$ 122,913	$ 459,223
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities			
Depreciation, amortization and accretion	749,970	750,077	748,136
Bad debts expense	115,989	83,004	74,988
Stock-based compensation expense	32,486	22,693	31,891
Deferred income taxes, net	31,053	(437,919)	(283,047)
Gain on investments and financial instruments, net		(31,595)	(81,423)
Equity in earnings of unconsolidated entities	(90,732)	(89,812)	(91,831)
Distributions from unconsolidated entities	91,587	92,335	87,404
Loss on impairment of intangible assets	14,000	414,376	24,923
Loss on asset disposals, net	17,765	24,296	34,016
Extraordinary item, net of tax			(42,827)
Noncash interest expense	4,412	10,125	21,124
Excess tax benefit from stock awards	(25)	(1,966)	(28,981)
Other operating activities	(46)	(1,831)	(3,683)
Changes in assets and liabilities			
Accounts receivable	(110,258)	(79,427)	(88,889)
Inventory	(34,566)	(17,123)	16,848
Accounts payable	29,646	6,804	13,905
Customer deposits and deferred revenues	(6,165)	7,692	24,725
Accrued taxes	56,068	(11,725)	56,225
Accrued interest	(2,009)	(4,221)	(8,273)
Other assets and liabilities	(50,307)	(9,804)	(23,422)
	1,102,594	848,892	941,032
Cash flows from investing activities			
Additions to property, plant and equipment	(671,165)	(734,923)	(699,566)
Cash paid for acquisitions and licenses	(29,276)	(389,189)	(23,764)
Cash received from divestitures	50	6,838	4,277
Proceeds from disposition of investments		259,017	92,002
Cash paid to settle derivative liabilities		(17,404)	
Cash paid for short-term investments	(109,230)	(27,446)	
Cash received from short-term investments	23,660		
Other investing activities	4,515	355	(804)
	(781,446)	(902,752)	(627,855)
Cash flows from financing activities			
Borrowings from revolving credit facilities		100,000	25,000
Repayment of revolving credit facilities		(100,000)	(60,000)
Issuance of long-term debt			2,857
Repayment of long-term debt	(143,078)	(9,448)	(3,552)
Settlement of variable prepaid forward contracts		(47,357)	
TDS Common Shares and Special Common Shares reissued for benefit plans, net of tax payments	819	1,409	113,605
U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	(82)	(2,288)	10,073
Excess tax benefit from stock awards	25	1,966	28,981

Repurchase of TDS Common and Special Common Shares	(178,536)	(197,672)	(126,668)
Repurchase of U.S. Cellular Common Shares	(33,585)	(28,366)	(87,902)
Dividends paid	(46,798)	(47,320)	(45,830)
Payment of debt issuance costs	(10,079)		
Distributions to noncontrolling interests	(17,533)	(16,769)	(8,559)
Other financing activities	1,382	2,568	(61)
	(427,465)	(343,277)	(152,056)
Net increase (decrease) in cash and cash equivalents	(106,317)	(397,137)	161,121
Cash and cash equivalents			
Beginning of period	777,309	1,174,446	1,013,325
End of period	$ 670,992	$ 777,309	$ 1,174,446

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

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Telephone and Data Systems, Inc.

Consolidated Balance Sheet Assets

December 31,	2009	2008
	(Dollars in thousands)	
Current assets		
Cash and cash equivalents	$ 670,992	$ 777,309
Short-term investments	113,275	27,705
Accounts receivable		
Due from customers, less allowances of $30,422 and $12,822, respectively	380,941	377,054
Other, principally connecting companies, less allowances of $7,201 and $6,380, respectively	130,973	139,795
Inventory	156,987	122,377
Net deferred income tax asset	29,874	27,758
Prepaid expenses	94,336	93,382
Other current assets	66,764	63,556
	1,644,142	1,628,936
Investments		
Licenses	1,443,025	1,441,440
Goodwill	707,840	707,079
Customer lists, net of accumulated amortization of $108,944 and $97,891, respectively	26,589	34,032
Investments in unconsolidated entities	203,799	205,768
Notes receivable, less valuation allowance of $55,144 and $55,144, respectively	7,605	7,898
Other investments	2,180	2,725
	2,391,038	2,398,942
Property, plant and equipment		
In service and under construction	8,760,327	8,680,388
Less: Accumulated depreciation	5,252,482	5,111,464
	3,507,845	3,568,924
Other assets and deferred charges	65,759	55,614
Total assets	$ 7,608,784	$ 7,652,416

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

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Telephone and Data Systems, Inc.

Consolidated Balance Sheet Liabilities and Equity

December 31,	2009	2008
	(Dollars in thousands)	
Current liabilities		
Current portion of long-term debt	$ 2,509	$ 15,337
Accounts payable	347,348	319,575
Customer deposits and deferred revenues	167,963	174,101
Accrued interest	12,227	14,236
Accrued taxes	39,644	25,192
Accrued compensation	93,524	90,512
Other current liabilities	117,081	134,334
	780,296	773,287
Deferred liabilities and credits		
Net deferred income tax liability	517,762	471,623
Other deferred liabilities and credits	373,862	368,045
	891,624	839,668
Long-term debt	1,492,908	1,621,422
Commitments and contingencies		
Noncontrolling interests with redemption features	727	589
Equity		
TDS stockholders' equity		
Common Shares, par value $.01 per share; authorized 100,000,000 shares; issued 57,082,000 shares	571	571
Special Common Shares, par value $.01 per share; authorized 165,000,000 shares; issued 63,442,000 shares	634	634
Series A Common Shares, par value $.01 per share; authorized 25,000,000 shares; issued and outstanding 6,492,000 and 6,461,000 shares, respectively	65	65
Capital in excess of par value	2,088,807	2,066,597
Treasury Shares at cost:		
Common Shares, 7,277,000 and 5,435,000 shares, respectively	(217,381)	(163,017)
Special Common Shares, 13,717,000 and 9,352,000 shares, respectively	(464,268)	(350,091)
Accumulated other comprehensive income	(2,710)	(16,812)
Retained earnings	2,371,587	2,229,540
Total TDS stockholders' equity	3,777,305	3,767,487
Preferred shares	832	852
Noncontrolling interests	665,092	649,111
Total equity	4,443,229	4,417,450
Total liabilities and equity	$ 7,608,784	$ 7,652,416

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

	TDS Stockholders											
	Common Shares	Special Common Shares	Series A Common Shares	Capital in Excess of Par Value	Treasury Common Shares	Treasury Special Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total TDS Stockholders' Equity	Preferred Shares	Non controlling Interests	Total Equity
	(Dollars in thousands)											
December 31, 2006	**$ 571**	**$633**	**$64**	**$1,992,597**	**$(187,108)**	**$(187,020)**	**$ 522,113**	**$1,428,570**	**$3,570,420**	**$863**	**$611,794**	**$4,183,077**
Net income attributable to TDS shareholders								386,112	386,112			386,112
Net income attributable to noncontrolling interests classified as equity											76,867	76,867
Net change in marketable equity securities and equity method investments							(114,907)		(114,907)		(13,037)	(127,944)
Net change in derivative instruments							80,122		80,122		(549)	79,573
Changes in plan assets and projected benefit obligation related to retirement plan							3,403		3,403			3,403
Termination of defined							322		322			322

benefit pension plan(1)								
Cumulative-effect adjustment related to accounting for unrecognized tax benefits				20,723	(16,323)	4,400		4,400
Dividends:								
Common, Special Common and Series A Common Shares					(45,778)	(45,778)		(45,778)
Preferred shares					(52)	(52)		(52)
Repurchase of shares			(126,668)			(126,668)	(3)	(126,671)
Dividend reinvestment plan	1,483					1,483		1,483
Incentive and compensation plans	368	66,559	108,770		(61,878)	113,819		113,819
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	8,431					8,431	(11,544)	(3,113)
Stock-based compensation awards(2)	17,219					17,219		17,219
Tax windfall (shortfall) from stock awards(3)	28,376					28,376		28,376
Distributions to							(8,559)	(8,559)

noncontrolling interests												
Other				(364)					(364)			(364)
December 31, 2007	**$ 571**	**$633**	**$64**	**$2,048,110**	**$(120,549)**	**$(204,918)**	**$ 511,776**	**$1,690,651**	**$3,926,338**	**$860**	**$654,972**	**$4,582,170**

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Telephone and Data Systems, Inc.

Consolidated Statement of Changes in Equity

TDS Stockholders							
Common Shares	Special Common Shares	Series A Common Shares	Capital in Excess of Par Value	Treasury Common Shares	Treasury Special Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings