TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-K
February 27, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

OR

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

Commission file number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-2669023**

(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
30 North LaSalle Street, Chicago, Illinois (Address of principal executive offices)	**60602** (Zip code)

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

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

Title of each class	**Name of each exchange on which registered**
Common Shares, $.01 par value	New York Stock Exchange
6.625% Senior Notes due 2045	New York Stock Exchange
6.875% Senior Notes due 2059	New York Stock Exchange
7.0% Senior Notes due 2060	New York Stock Exchange

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

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

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

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

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

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

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

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

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

As of June 30, 2011, the aggregate market values of the registrant s Common Shares, Special Common Shares, Series A Common Shares and Preferred Shares held by non-affiliates were approximately $1.2 billion, $0.7 billion, $2.8 million and $0.8 million, respectively. For purposes hereof, it was assumed that each director, executive officer and holder of 10% or more of any class of voting equity security of Telephone and Data Systems, Inc. (TDS) is an affiliate. The June 30, 2011 closing price of the Common Shares was $31.08 and the Special Common Shares was $26.93, as reported by the New York Stock Exchange. Because trading in the Series A Common Shares and Preferred Shares is infrequent, the registrant has assumed for purposes hereof that (i) each Series A Common Share has a market value equal to one Common Share because the Series A Common Shares are convertible on a share-for-share basis into Common Shares, (ii) each nonredeemable Preferred Share has a market value of $100 because each of such shares had a stated value of $100 when issued, and (iii) each Preferred Share that is redeemable by the delivery of TDS Common Shares has a value equal to the value of the number of Common Shares (at $31.08 per share) on June 30, 2011 that would be required to be delivered upon redemption.

On January 13, 2012, TDS Shareholders approved a Share Consolidation Amendment to the Restated Certificate of Incorporation of TDS whereby (a) each Special Common Share was reclassified as a Common Share on a one-for-one basis, (b) each Common Share was reclassified as 1.087 Common Shares, and (c) each Series A Common Share was reclassified as 1.087 Series A Common Shares. The Share Consolidation became effective after the close of business on January 24, 2012. As a result, the Special Common Shares ceased to be outstanding and consequently, effective January 25, 2012, ceased trading on the New York Stock Exchange. The Special Common Shares previously traded on the New York Stock Exchange under the symbol TDS.S . Effective January 25, 2012, all of the certificates that previously represented Special Common Shares now represent Common Shares and trade on the New York Stock Exchange under the symbol TDS.

The number of shares outstanding of each of the registrant s classes of common stock, as of January 31, 2012, is 101,340,000 Common Shares, $.01 par value, and 7,119,000 Series A Common Shares, $.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Those sections or portions of the registrant s 2011 Annual Report to Shareholders, filed as Exhibit 13 hereto, and of the registrant s Notice of Annual Meeting of Shareholders and Proxy Statement for its 2012 Annual Meeting of Shareholders scheduled to be held May 17, 2012, described in the cross reference sheet and table of contents included herein are incorporated by reference into Parts II and III of this report.

Telephone and Data Systems, Inc.

Annual Report on Form 10-K

For The Period Ended December 31, 2011

CROSS REFERENCE SHEET AND TABLE OF CONTENTS

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(1) Parenthetical references are to information incorporated by reference from Exhibit 13 hereto, which includes portions of the registrant s Annual Report to Shareholders for the year ended December 31, 2011 (Annual Report) and from the registrant s Notice of Annual Meeting of Shareholders and Proxy Statement for its 2012 Annual Meeting of Shareholders (Proxy Statement) to be filed on or prior to April 30, 2012.

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

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

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

(5) Annual Report section entitled Market Risk.

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

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

(8) Proxy Statement section entitled Executive and Director Compensation.

(9) Proxy Statement sections entitled Security Ownership of Certain Beneficial Owners and Management and Securities Authorized for Issuance under Equity Compensation Plans.

(10) Proxy Statement sections entitled Corporate Governance, and Certain Relationships and Related Transactions.

(11) Proxy Statement section entitled Fees Paid to Principal Accountants.

Telephone and Data Systems, Inc.
30 NORTH LASALLE STREET, CHICAGO, ILLINOIS 60602
TELEPHONE (312) 630-1900

PART I

Item 1. Business

Telephone and Data Systems, Inc. (TDS) is a diversified telecommunications service company with wireless operations provided by TDS 84%-owned subsidiary, United States Cellular Corporation (U.S. Cellular) and wireline operations provided by TDS wholly owned subsidiary, TDS Telecommunications Corporation (TDS Telecom). At December 31, 2011, TDS served 5.9 million U.S. Cellular customers and 1.1 million TDS Telecom equivalent access lines. U.S. Cellular and TDS Telecom provided approximately 84% and 15%, respectively, of TDS consolidated revenues during 2011. TDS business strategy is to expand its existing operations through internal growth and acquisitions and to explore and develop other related businesses that management believes will utilize TDS expertise in customer-focused services.

TDS is also a 63% owner of Airadigm Communications, Inc. (Airadigm), a Wisconsin-based wireless service provider. Airadigm operates independently from U.S. Cellular and at this time there are no plans to combine the operations of these subsidiaries. TDS also conducts printing and distribution services through its majority-owned subsidiary, Suttle-Straus, Inc. (Suttle-Straus). Airadigm and Suttle-Straus provided approximately 1% of consolidated revenues combined.

TDS has three reportable segments: (i) U.S. Cellular s wireless operations; (ii) TDS Telecom s Incumbent Local Exchange Carrier (ILEC) wireline operations and (iii) TDS Telecom s Competitive Local Exchange Carrier (CLEC) wireline operations. Information about each of these segments is disclosed below. Additional information about TDS segments is incorporated herein by reference from Note 18 Business Segment Information, in TDS Annual Report to Shareholders, filed as Exhibit 13 hereto. TDS does not have any foreign operations.

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

TDS Common Shares trade under the ticker symbol TDS on the New York Stock Exchange (NYSE). U.S. Cellular Common Shares trade on the NYSE under the ticker symbol USM . On January 13, 2012, TDS shareholders approved a Share Consolidation Amendment to the Restated Certificate of Incorporation of TDS whereby (a) each Special Common Share was reclassified as a Common Share on a one-for-one basis, (b) each Common Share was reclassified as 1.087 Common Shares, and (c) each Series A Common Share was reclassified as 1.087 Series A Common Shares. The Share Consolidation became effective on January 24, 2012, as such, TDS Special Common Shares, which had formerly traded under the ticker symbol TDS.S on the NYSE, began trading as TDS Common Shares under the ticker symbol TDS on January 25, 2012.

TDS 7.0% Senior Notes trade on the NYSE under the symbol TDJ, TDS 6.625% Senior Notes trade under the symbol TDI and TDS 6.875% Senior Notes trade under the symbol TDE . U.S. Cellular s 6.95% Senior Notes trade under the symbol UZA .

U.S. Cellular is a majority-owned subsidiary of TDS. As of December 31, 2011, TDS owned 84% of the combined total of the outstanding Common Shares and Series A Common Shares of U.S. Cellular and controlled 96% of the combined voting power of both classes of common stock.

Available Information

TDS website is *http://www.teldta.com*. TDS files with, or furnishes to, the Securities and Exchange Commission (SEC) annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, as well as various other information. Anyone may access, free of

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

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

U.S. Cellular Operations

General

United States Cellular Corporation (U.S. Cellular) was incorporated under the laws of the state of Delaware in 1983. At December 31, 2011, U.S. Cellular provided wireless voice and data services to 5.9 million customers in five geographic market areas in 26 states. U.S. Cellular believes that it is the seventh largest wireless operating company in the United States at December 31, 2011 based on internally prepared calculations of the aggregate number of customers in its consolidated markets compared to the number of customers disclosed by other wireless companies in their publicly released information. U.S. Cellular operates in one reportable segment, wireless operations, and all of its wireless operating markets are in the United States.

U.S. Cellular is a wireless telecommunications service provider. U.S. Cellular operates its wireless systems under an organizational structure in which it groups its markets (geographic service areas as defined by the Federal Communications Commission (FCC) in which wireless carriers are licensed, for fixed terms, to provide service) into geographic market areas to offer customers large service areas that primarily utilize U.S. Cellular s network. Since 1985, when it began providing wireless telecommunications service in Knoxville, Tennessee and Tulsa, Oklahoma, U.S. Cellular has expanded its wireless networks and customer service operations to cover five geographic market areas in portions of 26 states, which collectively represent a total population of 46.9 million as of December 31, 2011. U.S. Cellular uses roaming agreements with other wireless carriers to provide service to its customers in areas not covered by U.S. Cellular s network.

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

U.S. Cellular s ownership interests in wireless licenses include both consolidated and investment interests in licenses covering portions of 36 states and a total population of 92.0 million at December 31, 2011.

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

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

For both consolidated markets and consolidated operating markets, the tables below aggregate the total population within each geographic market area at December 31, 2011, regardless of U.S. Cellular s percentage ownership in the licenses included in such geographic market areas.

Total Consolidated Markets (Including non-operating markets)

The following table summarizes information regarding licensed areas which U.S. Cellular consolidates.

Geographic Market Areas	Population (1)	Customers	Penetration	States
Central	64,869,000	3,741,000	5.8%	AL, AR, CO, FL, GA, IA, IL, IN, KS, KY, LA, MI, MN, MO, MS, NE, OH, OK, SD, TX, WI
Mid-Atlantic	20,095,000	1,124,000	5.6%	MD, NC, PA, SC, TN, VA, WV
New England	2,842,000	443,000	15.6%	ME, NH, VT
Northwest	3,674,000	380,000	10.3%	CA, ID, OR, WA
New York	485,000	203,000	41.9%	NY
Total	91,965,000	5,891,000	6.4%	

Consolidated Operating Markets

The following table summarizes information regarding licensed areas which U.S. Cellular consolidates and are in operation.

Geographic Market Areas	Population (1)	Customers	Penetration	States
Central	33,155,000	3,741,000	11.3%	IA, IL, IN, KS, MI, MN, MO, NE, OH, OK, TX, WI
Mid-Atlantic	8,024,000	1,124,000	14.0%	MD, NC, PA, SC, TN, VA, WV
New England	2,842,000	443,000	15.6%	ME, NH, VT
Northwest	2,382,000	380,000	16.0%	CA, OR, WA
New York	485,000	203,000	41.9%	NY
Total	46,888,000	5,891,000	12.6%	

(1) Represents 100% of the population of the licensed areas, based on 2010 Claritas® population estimates. Population in this context includes only the areas covering such markets and is used only for the purposes of calculating market penetration and is not related to population equivalents, as defined below. It also includes 100% of the population of two licensed areas where U.S. Cellular owns a controlling interest and has contracted with another wireless operator to manage the operations.

Investment Markets

The following table summarizes the markets in which U.S. Cellular owns an investment interest at December 31, 2011. For licenses in which U.S. Cellular owns an investment interest, the related population equivalents are shown, defined as the total population of each licensed area multiplied by U.S. Cellular s ownership interest in each such license.

Market Area/Market	Population (1)	Current Percentage Interest (2)	Current Population Equivalents (3)
Los Angeles/Oxnard, CA	18,330,000	5.5%	1,008,000
Oklahoma City, OK	1,176,000	14.6%	172,000
Others (fewer than 100,000 population equivalents each)			290,000
Total population equivalents in investment markets			1,470,000

(1) Represents 100% of the total population of the licensed area in which U.S. Cellular owns an interest based on 2010 Claritas population estimates.

(2) Represents U.S. Cellular s percentage ownership interest in the licensed area as of December 31, 2011.

(3) Current Population Equivalents are derived by multiplying the amount in the Population column by the percentage interest indicated in the Current Percentage Interest column.

Business Development Strategy

U.S. Cellular s business development strategy is to obtain interests in and access to wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular anticipates that grouping its operations into market areas will continue to provide it with certain economies in its capital and operating costs. U.S. Cellular may continue to make opportunistic acquisitions or exchanges of markets that further strengthen its operating market areas and in other attractive markets. U.S. Cellular also believes that the acquisition of additional licenses within its operating territories will enhance its network capacity to meet its customers increased demand for data services. U.S. Cellular seeks to acquire noncontrolling interests in licenses in which it already owns the majority interest and/or operates the license. From time to time, U.S. Cellular has divested outright or included in exchanges for other wireless interests certain consolidated and investment interests that were considered less essential to its operating strategy. As part of this strategy, U.S. Cellular from time to time may be engaged in negotiations relating to the acquisition, exchange or disposition of companies, strategic properties or wireless spectrum. In general, U.S. Cellular may not disclose such transactions until there is a definitive agreement. In addition, U.S. Cellular may participate as a bidder, or member of a bidding group, in auctions for wireless spectrum administered by the FCC. In general, U.S. Cellular may not disclose any such participation unless it or such bidding group is announced as a winning bidder by the FCC.

U.S. Cellular engaged in the following significant transactions to further enhance its operating market areas in the last 5 years.

Spectrum Transactions: On September 30, 2011, U.S. Cellular completed an exchange whereby U.S. Cellular received eighteen 700 MHz spectrum licenses covering portions of Idaho, Illinois, Indiana, Kansas, Nebraska, Oregon and Washington in exchange for two PCS spectrum licenses covering portions of Illinois and Indiana. The exchange of licenses will provide U.S. Cellular with additional spectrum to meet anticipated future capacity and coverage requirements in several of its markets. No cash, customers, network assets, other assets or liabilities were included in the exchange.

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

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

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

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

Products and Services

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

During the fourth quarter of 2010, U.S. Cellular launched The Belief Project℠, a series of customer-focused initiatives developed to address consumers common frustrations with wireless service and to enhance the customer experience. The Belief Project recognizes customer loyalty with national bundled rate plans and industry-leading benefits without requiring customers to sign continuous contracts. Customers with Belief Plans also automatically get loyalty reward points just for being a customer that can be used for accelerated phone upgrades. Points can also be used for other rewards such as additional lines, phones, accessories and ringtones. All Belief Plans include Overage Cap, a free service that prevents voice overage charges from exceeding $50 for a National Single Line Belief Plan or $150 for a Family Belief Plan.

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

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

U.S. Cellular plans on further enhancement of its advanced data services in 2012 and beyond.

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

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

Handset selection and availability is an increasing area of competitive differentiation in the industry today. During 2011, U.S. Cellular continued to bolster its expanding smartphone and tablet portfolio with the launch of high-performance AndroidTM-powered wireless devices, such as the Motorola ElectrifyTM, Motorola XoomTM tablet, HTC HeroTM S, HTC WildfireTM S, HTC MergeTM, HTC FlyerTM tablet, Samsung GemTM, Samsung ReppTM, and LG GenesisTM. In addition, U.S. Cellular s smartphone catalog expanded with the addition of several BlackBerry® and Windows Mobile® wireless devices, such as the BlackBerry® TorchTM 9850, BlackBerry® CurveTM 9350, and HTC 7 ProTM. U.S. Cellular s competitive smartphone offerings play a significant role in driving data service usage and revenues. The devices offered include a full array of competitive smartphones from the top-tier AndroidTM-powered Motorola ElectrifyTM to several smartphones offered at retail prices of $200 or less. The Company does not currently offer devices operating on the iOSTM operating system from Apple®, such as the iPhoneTM. These devices are very popular and U.S. Cellular has experienced customer defections because it does not offer them.

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

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

Marketing

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

U.S. Cellular operates under a unified brand name and logo, U.S. Cellular, across all its markets. U.S. Cellular believes that creating positive connections with its customers enhances their wireless experience and builds customer loyalty. In addition to the features of the Belief Plans, as mentioned above, U.S. Cellular currently offers several innovative, customer-centric programs and services, at no cost to the customer. Under U.S. Cellular s Battery Swap program, a postpaid customer can exchange a battery that is dead or dying for one that is fully charged, free of charge. The Overage Protection service provides customers peace-of-mind by sending them text message alerts when they come close to reaching their allowable monthly plan minutes or text messages in order to avoid overage charges. Although the FCC approved a proposal that would require carriers to notify customers before they incur excessive charges in 2011, U.S. Cellular believes that it was the first to offer this service to all of its customers. My Contacts Backup offers extra security for customers by allowing them to retrieve their contact numbers if they lose or damage their wireless devices.

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

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

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

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

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

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

U.S. Cellular has relationships with exclusive and non-exclusive agents, which are independent businesses that obtain customers for U.S. Cellular on a commission basis. At December 31, 2011, U.S. Cellular had contracts with these businesses aggregating over 1,000 locations. U.S. Cellular provides additional support and training to its exclusive agents to increase customer satisfaction for customers they serve. U.S. Cellular s agents are generally in the business of selling wireless devices, wireless service packages and other related products. No single agent accounted for 10% or more of U.S. Cellular s operating revenues during the past three years.

U.S. Cellular also markets wireless service through resellers. The resale business involves the sale of wholesale access and minutes to independent companies that package and resell wireless services to end-users. These resellers generally provide prepaid and postpaid services to subscribers under their own brand names and also provide their own billing and customer service. U.S. Cellular incurs no direct subscriber acquisition costs related to reseller customers. At December 31, 2011, U.S. Cellular had approximately 283,000 customers of resellers. For the year ended December 31, 2011, revenues from resale business were less than 1% of total service revenues.

Customers and System Usage

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

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

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

Technology and System Design and Construction

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

U.S. Cellular currently deploys CDMA 1XRTT digital technology throughout virtually all of its networks. Through roaming agreements with other CDMA-based wireless carriers, U.S. Cellular s customers may access CDMA service in virtually all areas of the United States, as well as parts of Canada and Mexico. U.S. Cellular believes that CDMA technology offers advantages compared to the other second generation digital technologies, including greater spectral efficiency as well as better call quality. Another digital technology, Global System for Mobile Communication (GSM), has a larger installed base of customers worldwide. Since CDMA technology currently is not compatible with GSM technology, U.S. Cellular customers with CDMA-only based wireless devices are currently not able to use their wireless devices when traveling through areas serviced only by GSM-based networks. However, both CDMA and GSM technology are expected to be succeeded by fourth generation Long-Term Evolution (4G LTE) technology over the next several years, which is expected to result in most CDMA and GSM carriers having compatible technologies once they converge to 4G LTE.

A high-quality network, supported by continued investments in that network, will remain an important factor for wireless companies to remain competitive. U.S. Cellular continually reviews its long-term technology plans. Since 2006, U.S. Cellular has offered services based on 3G technology. This technology, which increases the speed of data transmissions on the wireless network, is also deployed by certain other wireless companies. As of December 31, 2011, U.S. Cellular deployed 3G technology that covered approximately 98% of its customers.

As described in Business Development Strategy, above, U.S. Cellular participated in spectrum auctions indirectly through its interests in limited partnerships, including King Street Wireless, Barat Wireless and Carroll Wireless, collectively, the limited partnerships. The limited partnerships were awarded spectrum licenses in FCC Auctions 73, 66 and 58. U.S. Cellular intends to work with these limited partnerships to build out and deploy 4G LTE networks. In late 2009, U.S. Cellular began technical trials of 4G LTE in support of gaining knowledge of the customer benefits

and technical expertise. In November 2011, U.S. Cellular announced the readiness of the initial 4G LTE network deployment to certain cities in Iowa, Wisconsin, Maine, North Carolina, Texas and Oklahoma, including some of U.S. Cellular s leading markets such as Milwaukee, Madison and Racine, Wisconsin; Des Moines, Cedar Rapids and Davenport, Iowa; Portland and Bangor, Maine; and Greenville, North Carolina. U.S. Cellular anticipates offering 4G capable devices in the first quarter of 2012 and has plans to expand the deployment of 4G LTE to cover over 50 percent of customers by the end of 2012.

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

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

U.S. Cellular believes that currently available technologies and appropriate capital additions will allow sufficient capacity on its networks to meet anticipated demand for voice and data services over the next few years. U.S. Cellular s continued investment in new licenses will support future demand for fourth generation broadband services using 4G LTE. Increasing demand for high-speed data and video services may require the acquisition of additional licenses or spectrum to provide sufficient capacity in markets where U.S. Cellular currently offers or may offer these services.

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

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

Competition

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

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

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

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

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

U.S. Cellular s approach in 2012 and in future years will be to focus on the unique needs and attitudes towards wireless service of its selected target segments. U.S. Cellular will deliver selected, targeted high quality products and services at fair prices and will continue to differentiate itself through the customer experience and service quality. The customer-centric features of the Belief Project, an award-winning network and cutting-edge wireless devices all represent examples of how U.S. Cellular believes it is differentiating itself from competitors as it relates to the customer experience. U.S. Cellular s ability to compete successfully in the future, and to meet necessary growth and return on capital, will depend upon its ability to anticipate and respond to changes related to new service offerings, customer preferences, competitors pricing strategies, technology, demographic trends, economic conditions and access to adequate spectrum resources.

Regulation

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

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

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

Licensing Facilities. The FCC must be notified each time an additional cell site for a cellular system is constructed which enlarges the service area of a given cellular system. U.S. Cellular believes that its facilities are in compliance with these requirements.

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

Wireless licenses are generally granted for a ten year term or, in some cases, for fifteen years. The FCC has established standards for conducting comparative renewal proceedings between a wireless licensee seeking renewal of its license and challengers filing competing applications. All of U.S. Cellular s licenses for which it applied for renewal between 1995 and 2011 have been renewed. In 2010, the FCC released a Notice of Proposed Rulemaking (NPRM) regarding wireless services renewal proceedings. Pursuant to the NPRM, the FCC would abolish comparative renewal proceedings, but establish criteria by which it would determine whether a wireless licensee was entitled to license renewal. The proposed changes have been opposed by most wireless carriers, including U.S. Cellular. It is, however, likely that the FCC will take some action to modify the license renewal process. U.S. Cellular expects to meet the criteria of any license renewal process.

U.S. Cellular conducts and plans to conduct its operations in accordance with all relevant FCC rules and regulations and anticipates being able to qualify for renewal expectancy in its upcoming renewal filings whatever renewal criteria are applied. Accordingly, U.S. Cellular expects to be able to renew its licenses under current regulations. However, changes in the regulation of wireless operators or their activities and of other mobile service providers or changes in the FCC s renewal requirements could have a material adverse effect on U.S. Cellular s operations.

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

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

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

The Telecommunications Act authorizes and directs the FCC to establish an explicit universal service fund, to preserve and advance universal access to telecommunications services in rural and high-cost areas of the country, to ensure that low-income consumers have access, and to promote access for schools, libraries and health care providers. The Telecommunications Act requires all interstate telecommunications providers, including wireless service providers, to make an equitable and non-discriminatory contribution to support the cost of providing universal service, unless their contribution would be de minimis. At present, the provision of wireline and wireless telephone service in high cost areas is subsidized by support from the Universal Service Fund (USF) to which all carriers with interstate and international revenues must contribute. Carriers are free to pass on such contributions to their customers. In 2011, U.S. Cellular contributed $101 million into the federal universal service fund and passed on such contributions to its customers.

Wireless carriers may be designated by states, or in some cases by the FCC, as eligible to receive universal service support payments if they provide specified services in high cost areas. To date, U.S. Cellular has sought, and received designation as an eligible telecommunications carrier (ETC) in the states of Illinois, Iowa, Kansas, Maine, Missouri, Nebraska, New Hampshire, New York, North Carolina, Oklahoma, Oregon, Tennessee, Virginia, Washington, Wisconsin and West Virginia. In 2011, U.S. Cellular received approximately $160.5 million in high cost support for its service to high cost areas in these states. In 2012, U.S. Cellular expects its high cost support to change, as set forth below.

National Broadband Plan. In 2009, Congress directed the FCC to develop a National Broadband Plan (the Plan) to ensure every American has access to broadband capability. In March 2010, the FCC released the Plan which describes the FCC s goals in enhancing broadband availability and the methods for achieving those goals over the next decade. Among the recommendations in the Plan which are significant to wireless providers are a series of proposals to make up to 500 MHz of spectrum newly available for broadband wireless uses by 2020, with a benchmark of making 300 MHz available by 2015, to reserve additional spectrum for unlicensed wireless use and to make more spectrum available for opportunistic and secondary uses. The Plan also made recommendations for transitioning the USF from supporting voice networks to broadband networks over time. On February 8, 2011 the FCC issued an NPRM seeking comment on proposals to revamp the USF and provide support for broadband deployment and for reforming the existing intercarrier compensation regime. Intercarrier compensation is compensation carriers pay to each other to originate, transport and terminate traffic among telecommunications networks.

FCC s USF and ICC Reform Order. Pursuant to the Broadband Plan and subsequent notices of proposed rulemaking, on November 18, 2011, the Commission released a Report and Order and Further Notice of Proposed Rulemaking (Reform Order) adopting reforms of its universal service and intercarrier compensation mechanisms, and proposing further rules to advance reform. The Reform Order substantially revises the current USF high cost program and intercarrier compensation regime. The current USF program, which supports voice services, is to be phased out over time and replaced with the Connect America Fund (CAF), a new Mobility Fund, and a Remote Area Fund, which will collectively support broadband-capable networks. Mobile wireless carriers such as U.S. Cellular may be eligible to receive funding under each of these funds under certain circumstances. All areas that U.S. Cellular currently serves may be declared ineligible for support if they are already served, or are subject to certain rights of first refusal by incumbent carriers.

The FCC has determined that both wireline and wireless facilities should be supported, with one wireline carrier and one mobile carrier receiving support in each area. The Mobility Fund will be implemented in two phases. The Phase I Mobility Fund will provide one-time funding through a reverse auction to fill in coverage in dead zones that currently lack 3G wireless service. In Phase I, $300 million will be allocated throughout the country and an additional $50 million will be set aside for tribal lands. The Phase II Mobility Fund will have a budget of up to $500 million per year (up to $100 million of which is reserved for tribal lands), with the method of disbursement to be determined in a further NPRM. Phase II funding will be provided to areas that lack 4G wireless service. The CAF will support service to homes, businesses, and anchor institutions, using any technology that can meet the technical requirements.

U.S. Cellular is contemplating whether it will participate in both Phase I and Phase II Mobility Fund proceedings, the CAF, and the Remote Area Fund, but it is uncertain whether U.S. Cellular will obtain support through any of these mechanisms. If U.S. Cellular is successful in obtaining support, it will be required to meet certain regulatory conditions to obtain, and retain the right to receive support, including for example allowing other carriers to collocate on U.S. Cellular s towers, allowing voice and data roaming on U.S. Cellular s network, and submitting various reports and certifications to retain eligibility each year. It is possible that additional regulatory requirements will be imposed pursuant to the Commission s Further Notice of Proposed Rulemaking.

U.S. Cellular s current ETC support is scheduled to be phased down. Support for 2011 (excluding certain adjustments) will be frozen on January 1, 2012 and reduced by 20% starting in July, 2012. Support will be reduced by 20% in July of each subsequent year. However, if the Phase II Mobility Fund is not operational by July 2014, the phase down will halt at that time with a 40% reduction in support, until such time as the Phase II Mobility Fund is operational.

With respect to intercarrier compensation, the Reform Order provides for a reduction in the charges that U.S. Cellular pays to wireline phone companies to transport and terminate calls that originate on U.S. Cellular s network, which will reduce U.S. Cellular s operating expenses. The reductions in intercarrier charges are to increase over the next five to ten years, further reducing U.S. Cellular s operating expenses.

The FCC s Reform Order, and any subsequent orders it adopts to reform universal service and intercarrier compensation, are subject to judicial review. It is expected that one or more parties will appeal the FCC s Reform Order. To date, at least one appeal has been filed. At this time, U.S. Cellular cannot predict the timing or outcome of any such appeals or whether such appeals would result in a material adverse effect on U.S. Cellular s business, financial condition or results of operations.

At this time, U.S. Cellular cannot predict the net effect of the FCC s changes to the USF high cost support program in the Reform Order or whether reductions in support will be offset with additional support from the CAF or the Mobility Fund. Accordingly, U.S. Cellular cannot predict whether such changes will have a material adverse effect on U.S. Cellular s business, financial condition or results of operations. U.S. Cellular expects that the FCC s changes to the intercarrier compensation regime will reduce U.S. Cellular s operating expenses in 2012, but at this time the exact timing and amounts of such reductions cannot be predicted.

Subpoena. On November 1, 2011, TDS received a subpoena from the FCC s Office of Inspector General requesting information regarding receipt of Federal Universal Service Fund support relating to TDS and its affiliates, which includes U.S. Cellular. TDS has provided the information requested and intends to fully cooperate with regard to the request. TDS cannot predict any action that may be taken as a result of the request.

Incremental Charges. In October, 2010, the FCC released an NPRM proposing that wireless carriers, among other things, be required to alert customers when they approach and reach usage limits for voice and data services which, if exceeded, would result in extra charges beyond the customer s rate plan. In October, 2011, a number of carriers, including U.S. Cellular, entered into voluntary commitments to minimize unexpected incremental charges on customers bills, precluding the need for the FCC to adopt rules proposed in its NPRM. Although U.S. Cellular already offers certain consumer protections, such as its Overage Cap and Overage Protections services, U.S. Cellular will incur additional regulatory obligations as a result of the voluntary commitments; however such burdens are not expected to have a material effect on U.S. Cellular s operations.

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

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

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

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

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

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

13

TDS Telecom Operations

General

TDS Telecom provides high-quality telecommunication services to commercial and residential customers in rural and suburban communities. As of December 31, 2011, TDS Telecom has 115 telephone company subsidiaries that are incumbent local exchange carriers (ILEC) in 28 states. TDS Telecom also provides telecommunication services as a competitive local exchange carrier (CLEC) in Illinois, Michigan, Minnesota, and Wisconsin.

TDS Telecom operates in a mix of rural, small town and suburban ILEC markets and urban CLEC markets, with the largest concentrations of its customers in the Upper Midwest and the Southeast. TDS Telecom was the seventh largest local exchange telephone company in the United States as of December 31, 2011. This ranking was based on the number of physical telephone access lines served and excludes the telephone operations of cable television companies. TDS Telecom provides retail telecommunications services to both residential and commercial customers that reside within its respective service territories. TDS Telecom also provides services to wholesale customers, who are primarily interexchange carriers (companies that provide long-distance telephone and data services between local exchange areas) that compensate TDS Telecom for the use of its facilities to originate and terminate their interstate and intrastate voice and data transmissions. The table below provides information about the equivalent access lines served by TDS Telecom as of December 31, 2011.

TDS Telecom
Equivalent Access Lines as of December 31, 2011 (1)

State	Residential	Commercial	Total	Percent of Total
Wisconsin	158,400	173,100	331,500	31%
Michigan	33,400	80,800	114,200	11%
Tennessee	80,600	26,300	106,900	10%
Minnesota	30,400	62,900	93,300	9%
Georgia	46,700	10,700	57,400	5%
New Hampshire	34,600	8,300	42,900	4%
Indiana	31,600	6,700	38,300	4%
Alabama	23,700	5,300	29,000	3%
Maine	22,600	4,900	27,500	2%
Illinois	1,300	25,700	27,000	2%
Total for 10 Largest States	463,300	404,700	868,000	81%
Other States	166,500	37,400	203,900	19%
Total	629,800	442,100	1,071,900	100%

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

Products, Services and Revenue Sources

TDS Telecom generates revenues by providing these products and services to commercial and residential customers and carriers:

- Voice services, including basic local and long-distance telephone service, Voice over Internet Protocol (VoIP) and enhanced local services like voice mail, caller ID and call forwarding;

- Broadband services, including Digital Subscriber Line (DSL), other forms of high-speed Internet and other enhanced data services;

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

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

- Satellite and terrestrial video.

The following table summarizes TDS Telecom s Operating revenue by source:

(Dollar in thousands)		For the Year Ended December 31, 2011	
Residential	$	269,729	33%
Commercial		265,595	33%
Wholesale		280,064	34%
Total operating revenues	$	815,388	100%

Commercial. TDS Telecom s commercial customer operations provide high-quality voice and data solutions including local and long-distance telephone service, broadband, Internet Protocol (IP)-based services, hosted and managed services and other services to businesses ranging in size, from primarily small businesses up to large corporations. TDS Telecom provides these commercial customers with secure and reliable Internet access, data connections and advanced voice service with innovative VoIP features. TDS Telecom addresses the needs these customers have for increased communications capabilities at reduced costs by matching these needs to new and existing technologies to create greater efficiencies and providing after-the-sale support. The TDS Telecom flagship product is managedIP, a fully-hosted, software and hardware solution that provides customers with a secure Internet connection and the latest VoIP features and capabilities. TDS managedIP is available in all CLEC markets and to 83% of ILEC commercial customers at the end of 2011.

TDS Telecom s telecommunications services for commercial customers are focused on small to medium-sized commercial customers. Medium-sized commercial prospects are characterized by above average access line to employee ratios, heavier utilization of broadband services and a focus on using telecommunications for business improvement. An emphasis on product development has led to the introduction of several integrated voice and data solutions, as well as the creation of small business bundled products. These bundled products make buying voice and broadband services easier and increase the value of these products to targeted business customers. Offering bundled voice and broadband solutions provisioned on a single access line provides for direct cost savings to the customer, removes distance limitations commonly associated with high speed data technology, and gives the customer greater flexibility to grow business telecommunications use.

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

Through its newly acquired Hosted and Managed Services companies, TDS Telecom provides data center colocation services and a suite of offerings around voice and data infrastructure management. Services provided include hosted application management, cloud services, managed hosting, and infrastructure services. These products are geared towards the needs of businesses that can outsource all their telecommunications and IT functions to a single trusted source.

Wholesale. TDS Telecom continues to provide a high level of service to traditional interexchange carrier wholesale customers such as AT&T, Verizon and Sprint. TDS Telecom s wholesale market focus is on access revenues which *is the compensation received for carrying interstate and intrastate long distance and data traffic on its networks.* The interstate and intrastate access rates charged include the cost of providing service plus a fair rate of return on the plant investment used to provide such service. Universal service fund (USF) revenues, which support the cost of providing telecommunication services in high cost areas, are also included in wholesale service revenues. Recent and proposed regulatory changes may affect the amounts of TDS Telecom s future wholesale revenues. The FCC recently began a process of reforming the manner in which carriers are compensated for originating, transporting and terminating each other s traffic with the issuance of a Report and Order and Further Notice of Proposed Rulemaking on November 18, 2011, the states are expected to play a role in this reform as well. But the FCC s reform efforts are being challenged in court, so the specific outcome of this reform effort remains uncertain. See Regulation below.

Residential. TDS Telecom s residential customer operations provide wireline local telephone service, high-speed data products and video services. Video services are offered through either a resale agreement with a satellite provider or through TDS Telecom s own terrestrial video offering. TDS Telecom provides long-distance service by reselling long-distance service in its markets and through connections with long-distance carriers which purchase network access from the TDS Telecom ILECs. Residential customer operations account for 59% of TDS Telecom s equivalent access lines and 33% of total revenue. As of December 31, 2011, approximately 85% of TDS Telecom s ILEC residential customers are located in rural and small town areas, while the other 15% are located in more suburban markets.

TDS Telecom s CLEC residential customer strategy is to provide continuing service to its current residential customer base with high quality customer service and competitive pricing, but not to seek any new residential customers due to their high acquisition costs and due to regulatory changes which have increased network cost and limited network availability. Therefore, it is expected that the number of residential customers within TDS Telecom s CLEC markets will continue to decline. There are 31,800 residential customer lines remaining at December 31, 2011 representing $21.6 million in retail revenues.

Strategy

TDS Telecom seeks to be the preferred telecommunications solutions provider for both residential and commercial customers by developing and delivering high-quality products that meet or exceed our customers needs and to outperform the competition by maintaining superior customer service. TDS Telecom s residential customer strategy is to provide voice, high-speed data, and video services through value-added bundling of products. The commercial focus is to provide advanced IP-based voice and data services, as well as information technology solutions. In addition, TDS Telecom seeks to grow through strategic acquisitions, as demonstrated by the three Hosted and Managed Services companies that TDS Telecom purchased in 2011 and 2010. TDS Telecom is actively investing in the continuing transformation of its networks as it works to deploy advanced technologies and new services. TDS Telecom seeks to capitalize on its strong local presence and strives to champion economic development in its communities by actively advocating for state and federal regulatory frameworks that would enable its operations to grow profitably and continue to meet customer expectations for new and improved services.

Central to TDS Telecom s market strategy is providing a high quality network, superior customer service, offering a full complement of services with value-added bundles and packages, and building brand equity in TDS Telecom. TDS Telecom distinguishes itself with the high-level of customer service offered to its customers. TDS Telecom s professional field service representatives both live and work in many of the communities they serve. To better meet the changing needs of its customers, TDS Telecom utilizes specialized customer service teams to more effectively and efficiently serve the individual needs of its retail customer segment.

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

TDS Telecom s objective is to be the preferred broadband provider in its ILEC markets by offering a wide range of premium Internet services. It continues to invest in high-speed data service and as of December 31, 2011, was able to provide this service to 94% of its ILEC access lines. At that date, 58% of the households passed in its ILEC markets had 10 megabits per second or faster service available.

In 2012 TDS Telecom plans to expand its terrestrial video service offering from the trial markets in Tennessee to an additional 19 markets which currently experience significant cable competition. This interactive video offering is intended to counter intensifying competition for video service and retain the video component of the double and triple play customer bundles.

TDS Telecom has continued to expand its presence in the business broadband market with high-speed symmetrical dedicated broadband, hosted-managedIP telephony, point-to-point Ethernet and Hosted and Managed Services. TDS managedIP delivers business customers a converged voice and data communications solution to the desktop. Point-to-point Ethernet provides customers secure and reliable high-speed data links for two or more locations over TDS Telecom s internal network, not the public Internet. Hosted and Managed Services provide customers with colocation, dedicated hosting, hosted application management and cloud computing services. The long-term strategy includes leveraging products such as managedIP and Hosted and Managed Services to all of TDS Telecom s commercial customers, differentiating both on service excellence and a superior product portfolio.

TDS Telecom focuses its marketing on information-intensive industries such as financial services, health services, real estate, hotels and motels, education and government. TDS Telecom uses its direct sales force, targeted mailings, and telemarketing to sell products and services to commercial markets, which are segmented into tiers based on size (in terms of both lines and revenues) and strategic importance. Different sales and distribution channels are used to target each segment.

TDS Telecom has continued to grow its long-distance product line and is the number one long-distance provider for its local service customers in its ILEC territories. Seventy-seven percent of TDS ILEC physical access lines have a TDS long-distance product at December 31, 2011.

The following table summarizes additional information regarding TDS Telecom s ILEC and CLEC customers for December 31, 2011:

Year ended December 31,	2011	2010	2009
ILEC			
Equivalent access lines	754,400	767,200	775,900
% Residential	78%	78%	76%
% Business	22%	22%	24%
Physical access lines	482,000	507,700	536,300
High speed data customers (1)	238,400	227,700	208,300
ManagedIP stations (2)	6,900	3,600	1,900
Long-distance customers	371,500	370,100	362,800
CLEC			
Equivalent access lines	317,500	335,400	355,900
% Residential	13%	17%	21%
% Business	87%	83%	79%
High speed data customers (1)	28,900	33,100	36,900
ManagedIP stations (2)	36,200	23,800	12,000

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

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

Network Architecture and Technology

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

TDS Telecom has an inter-regional core network which connects eight regional hub sites in its markets and carriers in Chicago and New York. This data network routing infrastructure allows TDS Telecom to reach 79% of its access lines with its 10 Gig core network. Additional development of a ubiquitous IP network that interconnects substantially all the existing service territories will allow for next generation IP service offerings and comprehensive IP policy management.

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

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

TDS Telecom s strategies recognize the changing telecommunications marketplace and the need to meet customer demands for greater bandwidth. TDS Telecom intends to compete by providing its customers with high-quality telecommunications services and building its network to take full advantage of advanced telecommunications technologies including:

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

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

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

- Providing IPTV to existing ILEC consumers by upgrading network equipment to increase speeds to carry video content.

New and Developing Technologies

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

- As a part of its strategy to compete for Triple Play (voice, high-speed Internet and video) customers, TDS Telecom currently offers Internet Protocol television (IPTV) in two ILEC markets following a trial launched in 2008. Based on the success of these two markets, as well as improvements in network technologies and cost to provide the service, TDS Telecom is planning to expand this offering to 26 additional markets in 2012 and 2013. Offering IPTV will establish TDS Telecom as a direct video provider in its markets and help drive the development of additional IP-based products connecting customers in integrated home networks.

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

- Provide Hosted and Managed Services to commercial customers desiring to outsource portions or all of their IT infrastructure. These services leverage TDS Telecom s competencies in technology and network management, and in the delivery of highly reliable commercial service. These services include colocation, dedicated hosting, hosted application management and cloud computing.

Competition

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

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

Cable television companies have developed technological improvements that have allowed them to extend their competitive operations beyond major markets and have enabled them to provide a broader range of voice and data services over their cable networks. Several national cable companies have aggressively pursued the bundling of voice communications, data and video at a discounted price to attract customers from traditional telephone companies. In addition, cable companies have added value to their Internet offerings by increasing speeds at no cost to the customer. TDS Telecom estimates that 69% of its ILEC access lines face active voice competition from cable providers at December 31, 2011. Cable companies are increasingly targeting not only residential customers, but commercial customers as well.

Wireless telephone service providers offering feature-rich wireless devices and improved network quality constitute a significant source of competition. Some customers have chosen to completely forego use of traditional wireline telephone service and instead rely solely on wireless service for voice communications services. This trend is more pronounced among residential customers, which comprise approximately 78% of TDS Telecom s ILEC equivalent access lines as of December 31, 2011. Some small businesses may follow the residential path by choosing wireless service and disconnecting wireline service. Increasing penetration of wireless broadband services has led to substitution for long-distance calling, which impacts both TDS Telecom s retail and access revenue.

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

While TDS Telecom positions itself as a high-quality telecommunications provider, it is experiencing price competition from Regional Bell Operating Companies (RBOC s) (in areas where TDS Telecom competes as a CLEC), other CLECs, cable providers, wireless carriers, and VoIP providers as it seeks to gain and retain customers. In addition, the RBOCs are actively seeking regulatory and technological changes that could impede TDS Telecom s access to facilities used to provide CLEC telecommunications services.

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

Business Development Strategy

In 2011, TDS acquired a Hosted and Managed Services company which provides hosted application management and managed IT hosting services to middle market businesses. In 2010 TDS acquired two Hosted and Managed Services companies which provide a wide range of information technology solutions, including colocation, dedicated hosting, and cloud computing services. Total consideration paid for these acquisitions was $161 million in cash. These acquisitions provide a strong set of complementary network and IT-based services that TDS Telecom can offer to both current as well as new customers. These companies are included in TDS Telecom s ILEC segment.

In the last five years, TDS Telecom has acquired four ILECs for an aggregate consideration of $71 million. As of the dates they were purchased these companies served a total of 26,600 equivalent access lines.

TDS Telecom may pursue both acquisitions and internal development projects to support its Hosted and Managed Services growth strategy. Additionally, TDS Telecom may make additional opportunistic acquisitions of operating telephone companies, customers, or related service businesses in the future. TDS Telecom s acquisition strategy is to focus on the geographic clustering of its companies to achieve cost economies but may expand beyond this geography if attractive target companies are identified to complement TDS Telecom s product and services growth

strategy. While management believes that it will be successful in making additional acquisitions, there can be no assurance that TDS or TDS Telecom will be able to negotiate additional acquisitions on terms acceptable to them or that regulatory approvals, where required, will be received.

Regulation

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

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

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

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

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

TDS Telecom s CLEC operations, like its ILEC operations, are regulated by state and federal regulatory agencies, including the FCC. However, CLECs are subject to significantly less regulation than ILECs.

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

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

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

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

National Broadband Plan. In 2009, Congress directed the FCC to develop a National Broadband Plan (the Plan) to ensure every American has access to broadband capability. In March 2010, the FCC released the Plan which describes the FCC s goals in enhancing broadband availability and the methods for achieving those goals over the next decade. The FCC notes that about one-half of the Plan will be addressed by the FCC, while the remainder would be addressed by Congress, the Executive Branch and state and local governments working closely with private and non-profit sectors. On February 8, 2011, partly in response to the Plan, the FCC issued a Notice of Proposed Rulemaking seeking comment on proposals to reform the USF to provide support for broadband deployment and to reform the existing intercarrier compensation regime.

USF and ICC Reform Order. Pursuant to the Plan and subsequent notices of proposed rulemaking, on November 18, 2011, the FCC issued a Report and Order and Further Notice of Proposed Rulemaking (Reform Order) to establish a new, broadband-focused support mechanism, called the Connect America Fund (CAF), and to reform the rules governing intercarrier compensation. Under the existing intercarrier compensation system carriers recover their costs, in part, from one another. The existing system generally ensures that TDS Telecom is able to recover its costs. The Reform Order established certain rules for transitioning, over time, from the existing system to one where carriers will recover their costs directly from their end user subscribers. The Reform Order addressed both intercarrier compensation as well as Universal Service Funding issues. The Reform Order also was accompanied by a Further Notice of Proposed Rulemaking seeking comment on a range of follow up proposals. The future proposed rulemaking is especially important to TDS Telecom, as numerous issues relevant to rate of return carriers, such as TDS Telecom, will be addressed in it. The Reform Order is also the subject of numerous Petitions for Reconsideration, which ask the FCC to reconsider portions of its decision, and it is the subject of numerous judicial appeals. Currently TDS Telecom receives $266 million in access revenues which includes approximately $90 million received under all the USF programs. TDS Telecom cannot predict the outcome of any future rulemaking, reconsideration and legal challenges and as a consequence, the impacts these may have on TDS Telecom. However, the Reform Order may have a negative impact on already declining revenues.

The FCC has determined that the deployment of both wireline and wireless broadband facilities should be supported, with one wireline carrier and one mobile carrier receiving support in each area.

For wireline rate of return carriers such as TDS Telecom, the Reform Order establishes a $2 billion fund that is intended to maintain existing levels of support in the aggregate while at the same time transitioning support mechanisms so that, over time, rate of return carriers receive

support for the deployment of wireline broadband facilities principally through the CAF rather than through the intercarrier compensation regime. To effectuate the first phase of this effort, the Reform Order established benchmarks that limit certain reimbursable capital and operating expenses for determining High Cost Loop Support; reduces High Cost Loop Support on a dollar-for-dollar basis where a carrier s local rates are set below a specified urban local rate floor; phases out safety net additive support; eliminates local switching support; eliminates support for service areas that overlap with the service areas of others; and imposes a $250 absolute cap on per line support. Although the Reform Order is intended to permit rate of return carriers to recover any lost support through the explicit support mechanism in the CAF, it remains unclear whether the CAF will provide TDS Telecom with the same level of support over time that TDS Telecom today receives.

With respect to intercarrier compensation, the Reform Order provides for a reduction in the charges that TDS pays to wireline phone companies to transport and terminate calls that originate on TDS network, which will reduce TDS operating expenses. However, TDS also receives revenue from other carriers to transport and terminate calls that originate on those carriers networks. As a general matter, the amount and timeframe for these reductions will depend on the nature of the traffic at issue. In some cases, such as with the exchange of traffic between wireline and wireless, the reduction is scheduled to occur quickly, whereas in other cases, such as with the exchange of traffic between wireline rate of return carriers, the reduction is scheduled to occur over a period of time. The fundamental goal of the Reform Order is to, over time, transition all intercarrier compensation to a default bill and keep arrangement so that, in the absence of some commercial arrangement, support for the deployment of broadband services is based solely on funds received from the CAF and end-user customers. As reductions in intercarrier charges increase over the next five to ten years, TDS related revenues and operating expenses are expected to decline.

American Recovery and Reinvestment Act. Congress enacted the American Recovery and Reinvestment Act of 2009, (the Recovery Act), which provides, among other things, for an aggregate appropriation of $7.2 billion to fund grants and loans to provide broadband infrastructure, access and equipment to consumers residing in rural, unserved or underserved areas of the United States. Under the Recovery Act, TDS Telecom was awarded $105.1 million in federal grants and will provide $30.9 million of its own funds to complete 44 projects which will result in DSL being available to 27,000 additional households. The distribution of Recovery Act funds to other telecommunications service providers could impact competition in certain of TDS Telecom s service areas.

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

Subpoena. On November 1, 2011, TDS received a subpoena from the FCC s Office of Inspector General requesting information regarding receipt of Federal Universal Service Fund support relating to TDS and its affiliates. TDS has provided the information requested and intends to fully cooperate with regard to the request. TDS cannot predict any action that may be taken as a result of the request.

TDS Other Items

Employees

TDS had approximately 12,300 employees as of December 31, 2011, less than 1% of whom were represented by a labor organization. TDS considers its relationship with its employees to be good.

Item 1A. Risk Factors

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

SAFE HARBOR CAUTIONARY STATEMENT

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

RISK FACTORS

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

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

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

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

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

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

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

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

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

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

U.S. Cellular is a regional wireless carrier that operates on a customer satisfaction strategy, seeking to meet customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network. U.S. Cellular seeks to operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular relies on roaming agreements with other carriers to provide roaming capability to its customers in areas of the U.S. outside its service areas and to improve coverage within selected areas of U.S. Cellular s network footprint. U.S. Cellular pursues a product and technology strateg