TELEPHONE & DATA SYSTEMS INC /DE/
Form ARS
April 16, 2012

TELEPHONE AND DATA SYSTEMS, INC.

ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2011
Pursuant to SEC Rule 14a-3

The following audited financial statements and certain other financial information for the year ended December 31, 2011, represent Telephone and Data Systems' annual report to shareholders as required by the rules and regulations of the Securities and Exchange Commission ("SEC").

The following information was filed with the SEC on February 27, 2012 as Exhibit 13 to Telephone and Data Systems' Annual Report on Form 10-K for the year ended December 31, 2011. Such information has not been updated or revised since the date it was originally filed with the SEC. Accordingly, you are encouraged to review such information together with any subsequent information that we have filed with the SEC and other publicly available information.

Exhibit 13

Telephone and Data Systems, Inc. and Subsidiaries

Financial Reports Contents

Table of Contents

Telephone and Data Systems, Inc.

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

Telephone and Data Systems, Inc. ("TDS") is a diversified telecommunications company providing high-quality telecommunications services to approximately 5.9 million wireless customers and 1.1 million wireline equivalent access lines at December 31, 2011. TDS conducts substantially all of its wireless operations through its 84%-owned subsidiary, United States Cellular Corporation ("U.S. Cellular"), and provides wireline services through its incumbent local exchange carrier ("ILEC") and competitive local exchange carrier ("CLEC") operations under its wholly owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom"). TDS conducts printing and distribution services through its majority-owned subsidiary, Suttle-Straus, Inc. ("Suttle-Straus") which represents a small portion of TDS' operations. On September 23, 2011, TDS acquired 63% of Airadigm Communications, Inc. ("Airadigm"). Airadigm is 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. Airadigm's financial results were not significant to TDS' operations for the year ended December 31, 2011.

The following discussion and analysis should be read in conjunction with TDS' audited consolidated financial statements and the description of TDS' business included in Item 1 of the TDS Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2011.

OVERVIEW

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

U.S. Cellular

U.S. Cellular provides wireless telecommunications services to approximately 5.9 million customers in five geographic market areas in 26 states. As of December 31, 2011, U.S. Cellular's average penetration rate in its consolidated operating markets was 12.6%. U.S. Cellular operates on a customer satisfaction strategy, striving to meet or exceed customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network. U.S. Cellular's business development strategy is to 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.

Financial and operating highlights in 2011 included the following:

- Total customers were 5,891,000 at December 31, 2011, including 5,608,000 retail customers (95% of total).

- On October 1, 2010, U.S. Cellular launched The Belief Project which introduced several innovative service offerings including no contract after the first contract; simplified national rate plans; a loyalty rewards program; overage protection, caps and forgiveness; a phone replacement program; and discounts for paperless billing and automatic payment. As of December 31, 2011, 3.1 million new and existing customers had subscribed to Belief Plans.

- Retail customer net losses were 125,000 in 2011 compared to net losses of 15,000 in 2010. In the postpaid category, there was a net loss of 117,000 in 2011, compared to net losses of 66,000 in 2010. Prepaid net losses were 8,000 in 2011 compared to net additions of 51,000 in 2010.

- Postpaid customers comprised approximately 95% of U.S. Cellular's retail customers as of December 31, 2011. The postpaid churn rate was 1.5% in 2011 and 2010.

Table of Contents

Telephone and Data Systems, Inc.

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

Postpaid customers on smartphone service plans increased to 30% as of December 31, 2011 compared to 17% as of December 31, 2010. In addition, smartphones represented 44% of all devices sold in 2011 compared to 25% in 2010.

Service revenues of $4,053.8 million increased $140.8 million year-over-year, primarily due to a 38% increase in inbound roaming revenues of $95.0 million. Retail service revenues increased $27 million, or 1%, due to an increase in average monthly service revenue per customer, partially offset by a decrease in the average number of customers of 146,000.

Additions to Property, plant and equipment totaled $782.5 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, deploy fourth generation Long-term Evolution ("4G LTE") equipment, outfit new and remodel existing retail stores, develop new billing and other customer management related systems and platforms, and enhance existing office systems. Total cell sites in service increased by 237, or 3%, year-over-year to 7,882.

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

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

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

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

Relative ability to attract and retain customers, including the ability to reverse recent customer net losses, in a competitive marketplace in a cost effective manner;

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

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

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

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

Rapid growth in the demand for new data devices and services which may result in increased cost of equipment sold and other operating expenses and the need for additional investment in network capacity;

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

Table of Contents

Telephone and Data Systems, Inc.

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

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

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

Uncertainty related to various rulemaking proceedings underway at the Federal Communications Commission ("FCC"), including uncertainty relating to the impacts on universal service funding, intercarrier compensation and other matters of the *Connect America Fund & Intercarrier Compensation Reform Order and Further Notice of Proposed Rulemaking* issued by the FCC on October 27, 2011;

The FCC's adoption of mandatory roaming rules which will be of assistance in the negotiation of data roaming agreements with other wireless operators in the future; and

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

See "Results of Operations U.S. Cellular."

2012 U.S. Cellular Estimates

U.S. Cellular's estimates of full-year 2012 results are shown below. Such estimates represent U.S. Cellular's views as of the date of filing of TDS' Form 10-K for the year ended December 31, 2011. Such forward-looking statements should not be assumed to be current as of any future date. U.S. Cellular undertakes no duty to update such information whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from such estimated results.

			2012 Estimated Results(1)		2011 Actual Results
Service revenues		$	4,050 - $4,150 million	$	4,053.8 million
Operating income		$	200 - $300 million	$	280.8 million
Depreciation, amortization and accretion expenses, and net gain or loss on asset disposals and exchanges and impairment of assets(2)	Approx.	$	600 million	$	571.7 million
Adjusted OIBDA(3)		$	800 - $900 million	$	852.5 million
Capital expenditures	Approx.	$	850 million	$	783.0 million

(1)

These estimates are based on U.S. Cellular's current plans, which include a multi-year deployment of 4G LTE technology which commenced in 2011. New developments or changing conditions (such as customer net growth, customer demand for data services or possible acquisitions, dispositions or exchanges) could affect U.S. Cellular's plans and, therefore, its 2012 estimated results.

(2)

2011 Actual Results include gains on asset disposals and exchanges, net of $1.9 million. The 2012 Estimated Results include only Depreciation, amortization and accretion expenses; such estimated results do not include net gains or losses related to disposals and exchanges of assets or losses on impairments of assets (since such transactions and their effects cannot be predicted).

(3)

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

Table of Contents

Telephone and Data Systems, Inc.

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

period. TDS does not intend to imply that any of such amounts that are excluded are non-recurring, infrequent or unusual and, accordingly, they may be incurred in the future. TDS believes this measure provides useful information to investors regarding TDS' financial condition and results of operations because it highlights certain key cash and non-cash items and their impacts on cash flows from operating activities.

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

TDS Telecom

TDS Telecom seeks to be the preferred telecommunications solutions provider in its chosen markets 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 provides voice, high-speed data, and video services to residential customer 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 which provide colocation, dedicated hosting, hosted application management and cloud computing services. TDS Telecom's strategy encompasses many components, including:

- Delivering superior customer service;
- Developing a product portfolio targeted to our chosen customers;
- Investing in networks and deploying advanced technologies;
- Assessing the competitive environment and responding as appropriate;
- Advocating with respect to state and federal regulations for positions that support its ability to provide advanced telecommunications services to its customers; and
- Exploring transactions to acquire or divest properties that would result in strengthening its operations.

Both TDS Telecom's ILEC and CLEC operations are faced with significant challenges, including competition from cable television, wireless and other wireline providers, decreases in intercarrier compensation for the use of owned networks, increases in the cost for use of other providers' networks, and technologies such as Voice over Internet Protocol ("VoIP"). These challenges could have a material adverse effect on the financial condition, results of operations and cash flows of TDS Telecom in the future.

Table of Contents

Telephone and Data Systems, Inc.

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

Financial and operating highlights for 2011 include the following:

Overall equivalent access lines served by TDS Telecom decreased to 1,071,900 from 1,102,600 at December 31, 2010.

Operating revenues increased $19.5 million or 2% to $815.4 million in 2011. The increase was primarily due to Hosted and Managed Services acquisitions and an increase in ILEC data customers partially offset by a decrease in revenues due to the decline in ILEC and CLEC physical access lines.

Operating expenses increased $20.7 million or 3% to $716.7 million in 2011 primarily due to operating costs associated with recent acquisitions partially offset by discrete items including an asset loss in 2010 for which insurance proceeds were received in 2011, and the refund of certain prior year regulatory contributions.

Additions to Property, plant and equipment totaled $191.2 million including strategic investment in increased network capabilities for broadband services, Hosted and Managed Services expansion, IPTV expansion, and software tools that improve management of the network and support sales and customer service processes.

TDS acquired one Hosted and Managed Services company in 2011 whose services include hosted application management, cloud services, managed hosting and infrastructure services. In 2010 TDS acquired two companies which provided collocation services in addition to hosted and managed services.

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

Continued uncertainty related to current economic conditions and the challenging business environment;

Continued increases in competition from wireless and other wireline providers, cable providers, and technologies such as VoIP and third-generation ("3G") and fourth-generation ("4G") mobile technology;

Continued increases in high-speed data services;

Continued declines in physical access lines;

Continued focus on customer retention programs, including discounting for "triple-play" bundles that provide voice, DSL and TV;

The effects of expansion of IPTV into additional markets in 2012;

Continued growth in hosted and managed services;

- Continued focus on cost-reduction initiatives through product cost improvement and process efficiencies;
- The effects on competition of recent industry consolidation and possible further industry consolidation;
- The Federal government's disbursement of Broadband Stimulus Funds to bring broadband to rural customers;
- Uncertainty related to the National Broadband Plan and other rulemaking by the FCC, including uncertainty relating to future funding from the USF, intercarrier compensation and changes in access reform; and
- Potential acquisitions by TDS Telecom, including additional potential acquisitions of hosted and managed services businesses.

See "Results of Operations TDS Telecom."

Table of Contents

Telephone and Data Systems, Inc.

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

2012 TDS Telecom Estimates

TDS Telecom's estimates of full-year 2012 results are shown below. Such estimates represent TDS Telecom's view as of the filing date of TDS' Form 10-K for the year ended December 31, 2011. Such forward-looking statements should not be assumed to be current as of any future date. TDS undertakes no duty to update such information whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from such estimated results.

		2012 Estimated Results(1)	2011 Actual Results
ILEC and CLEC operations:			
Operating revenues		$ 810 - $840 million	$ 815.4 million
Operating income		$ 55 - $85 million	$ 98.7 million
Depreciation, amortization and accretion expenses, and net gain or loss on asset disposals and exchanges and loss on impairment of assets(2)	Approx.	$ 190 million	$ 181.8 million
Adjusted OIBDA(3)		$ 245 - $275 million	$ 280.9 million
Capital expenditures		$ 150 - $180 million	$ 191.2 million

(1) These estimates are based on TDS Telecom's current plans. Various other factors, including possible acquisitions, dispositions or exchanges, could affect TDS Telecom's estimated guidance in 2012.

(2) 2011 Actual Results include losses on asset disposals of $1.2 million. The 2012 Estimated Results include only the estimate for Depreciation, amortization and accretion expenses; such estimated results do not include net gains or losses related to asset disposals and exchanges or losses on impairments of assets (since such transactions and their effects cannot be predicted).

(3) Adjusted OIBDA is defined as operating income excluding the effects of: depreciation, amortization and accretion (OIBDA); the net gain or loss on asset disposals and exchanges (if any); and the loss on impairment of assets (if any). This measure also may be commonly referred to by management as operating cash flow. This measure should not be confused with Cash flows from operating activities, which is a component of the Consolidated Statement of Cash Flows. Adjusted OIBDA excludes the net gain or loss on asset disposals and exchanges (if any) and loss on impairment of assets (if any), in order to show operating results on a more comparable basis from period to period. TDS does not intend to imply that any of such amounts that are excluded are non-recurring, infrequent or unusual and, accordingly, they may be incurred in the future. TDS believes this measure provides useful information to investors regarding TDS' financial condition and results of operations because it highlights certain key cash and non-cash items and their impacts on cash flows from operating activities.

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

- Process and productivity initiatives,
- Increased network and product capabilities for broadband services,
- The expansion of terrestrial TV to additional markets,

Success-based spending to sustain managedIP and IPTV growth, and

Telephone and Data Systems, Inc.

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

TDS Telecom will fund its share for projects approved under the Recovery Act to increase broadband access in unserved areas. Under the Recovery Act, TDS Telecom will receive $105.1 million in federal grants and will provide $30.9 million (a portion of which is included in 2012 estimated capital expenditures) of its own funds to complete 44 projects. Under the terms of the grants, the projects must be completed by June of 2015.

Cash Flows and Investments

TDS and its subsidiaries had cash and cash equivalents totaling $563.3 million; short-term investments in the form of U.S. treasury securities, certificates of deposit and corporate notes aggregating $246.3 million; long-term investments in the form of U.S. treasury securities and corporate notes of $45.1 million; and borrowing capacity under their revolving credit facilities of $699.6 million as of December 31, 2011. Also, during 2011, TDS and its subsidiaries generated $1,255.7 million of cash flows from operating activities. Management believes that cash on hand, expected future cash flows from operating activities and sources of external financing provide substantial liquidity and financial flexibility and are sufficient to permit TDS and its subsidiaries to finance their contractual obligations and anticipated capital and operating expenditures for the foreseeable future.

In May 2011, U.S. Cellular issued $342 million of 6.95% Senior Notes due 2060. In June 2011, the net proceeds of such offering were used to redeem $330 million of U.S. Cellular's 7.5% Senior Notes due 2034, which represents the entire outstanding amount of such notes. The redemption price of the 7.5% Senior Notes was equal to 100% of the outstanding aggregate principal amount, plus accrued and unpaid interest thereon until the redemption date.

In March 2011, TDS issued $300 million of 7% Senior Notes due 2060. In May 2011, the net proceeds of such offering were used to redeem $282.5 million of TDS' 7.6% Series A Notes due 2041, which represents the entire outstanding amount of such notes. The redemption price of the 7.6% Series A Notes was equal to 100% of the outstanding aggregate principal amount, plus accrued and unpaid interest thereon until the redemption date.

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

Table of Contents

Telephone and Data Systems, Inc.

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

RESULTS OF OPERATIONS CONSOLIDATED

December 31, (Dollars in thousands, except per share amounts)	2011	Change	Percentage Change	2010	Change	Percentage Change	2009
Operating revenues							
U.S. Cellular	$4,343,346	$165,665	4%	$4,177,681	$ (36,199)	(1)%	$4,213,880
TDS Telecom	815,388	19,546	2%	795,842	5,990	1%	789,852
All other(1)	21,737	8,431	63%	13,306	(2,905)	(18)%	16,211
Total operating revenues	5,180,471	193,642	4%	4,986,829	(33,114)	(1)%	5,019,943
Operating expenses							
U.S. Cellular	4,062,566	86,358	2%	3,976,208	87,853	2%	3,888,355
TDS Telecom	716,737	20,729	3%	696,008	(359)		696,367
All other(1)	38,666	20,144	>100%	18,522	(8,855)	(32)%	27,377
Total operating expenses	4,817,969	127,231	3%	4,690,738	78,639	2%	4,612,099
Operating income (loss)							
U.S. Cellular	280,780	79,307	39%	201,473	(124,052)	(38)%	325,525
TDS Telecom	98,651	(1,183)	(1)%	99,834	6,349	7%	93,485
All other(1)	(16,929)	(11,713)	>100%	(5,216)	5,950	53%	(11,166)
Total operating income	362,502	66,411	22%	296,091	(111,753)	(27)%	407,844
Other income and (expenses)							
Equity in earnings of unconsolidated entities	82,538	(15,536)	(16)%	98,074	7,342	8%	90,732
Interest and dividend income	9,145	(1,363)	(13)%	10,508	(613)	(6)%	11,121
Interest expense	(118,201)	(1,391)	(1)%	(116,810)	9,399	7%	(126,209)
Gain on investment	24,103	24,103	N/M			N/M	
Other, net	3,658	5,747	>100%	(2,089)	(4,089)	>100%	2,000
Total other income (expenses)	1,243	11,560	>100%	(10,317)	12,039	54%	(22,356)
Income before income taxes	363,745	77,971	27%	285,774	(99,714)	(26)%	385,488
Income tax expense	113,503	18,315	19%	95,188	(40,351)	(30)%	135,539
Net income	250,242	59,656	31%	190,586	(59,363)	(24)%	249,949
Less: Net income attributable to noncontrolling interests, net of tax	(49,676)	(3,939)	(9)%	(45,737)	12,865	22%	(58,602)
Net income attributable to TDS shareholders	200,566	55,717	38%	144,849	(46,498)	(24)%	191,347
Preferred dividend	(50)			(50)	1	2%	(51)

requirement

Net income available to common shareholders	$	200,516	$	55,717	38%	$	144,799	$	(46,497)	(24)%	$	191,296
Basic earnings per share attributable to TDS shareholders(2)	$	1.85	$	0.53	40%	$	1.32	$	(0.35)	(21)%	$	1.67
Diluted earnings per share attributable to TDS shareholders(2)	$	1.83	$	0.52	40%	$	1.31	$	(0.36)	(22)%	$	1.67

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

(2) On January 13, 2012, TDS shareholders approved a Share Consolidation Amendment to the Restated Certificate of Incorporation of TDS. Basic and diluted earnings per share attributable to TDS shareholders have been retroactively restated to reflect the impact of the increased shares outstanding as a result of the Share Consolidation Amendment as of the beginning of all periods presented. See Note 21 Subsequent Events in the Notes to the Consolidated Financial Statements for additional information.

N/M Percentage change not meaningful

Table of Contents

Telephone and Data Systems, Inc.

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

Operating Revenues and Expenses

See "Results of Operations U.S. Cellular" and "Results of Operations TDS Telecom" below for factors that affected Operating revenues and expenses.

Equity in earnings of unconsolidated entities

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

TDS' investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed $55.3 million, $64.8 million and $64.7 million to Equity in earnings of unconsolidated entities in 2011, 2010 and 2009, respectively. TDS received cash distributions from the LA Partnership of $66.0 million in each of 2011, 2010 and 2009.

Interest expense

The 2011 increase in interest expense was primarily the result of recognizing in the Consolidated Statement of Operations $15.4 million of previously capitalized debt issuance costs related to senior notes redeemed in May and June 2011, as described more fully in Note 13 Debt. This increase was partially offset by increases in capitalized interest on projects related to network and system enhancements and lower interest rates on outstanding debt.

The decrease in interest expense in 2010 compared to 2009 was primarily attributable to the redemption of U.S. Cellular's 8.75% Senior Notes in December, 2009.

Gain on investment

Included in Gain on investment of $24.1 million is a gain from TDS' acquisition of 63% of Airadigm in September 2011 and the adjustment of a pre-existing noncontrolling interest for which U.S. Cellular purchased the remaining interest in May 2011, as more fully described in Note 8 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements.

Income tax expense

The effective tax rates on Income before income taxes and extraordinary item ("pre-tax income") for 2011, 2010 and 2009 were 31.2%, 33.3% and 35.2%, respectively. The following significant discrete and other items impacted income tax expense for these years:

2011 Includes a tax benefit of $26.9 million resulting from state tax law changes, a tax benefit of $9.0 million resulting from statute of limitation expirations and tax expense of $6.0 million resulting from correction of partnership tax basis relating to a prior period.

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

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

See Note 5 Income Taxes in the Notes to Consolidated Financial Statements for further information on the effective tax rate.

Table of Contents

Telephone and Data Systems, Inc.

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

Net income attributable to noncontrolling interests, net of tax

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

Year Ended December 31, (Dollars in thousands)	2011	2010	2009
Net income attributable to noncontrolling interest, net of tax U.S. Cellular			
Noncontrolling public shareholders'	$ 28,934	$ 24,323	$ 38,929
Noncontrolling shareholders' or partners'	20,742	21,414	19,673
	$ 49,676	$ 45,737	$ 58,602

RESULTS OF OPERATIONS U.S. CELLULAR

TDS provides wireless telephone service through U.S. Cellular, an 84%-owned subsidiary. U.S. Cellular owns, manages and invests in wireless markets throughout the United States.

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

As of December 31,(1)	2011	2010	2009
Customers			
Customers on postpaid service plans in which the end user is a customer of U.S. Cellular ("postpaid customers")	5,302,000	5,416,000	5,482,000
Customers on prepaid service plans in which the end user is a customer of U.S. Cellular ("prepaid customers")	306,000	313,000	262,000
Total retail customers	5,608,000	5,729,000	5,744,000
End user customers acquired through U.S. Cellular's agreements with third parties ("reseller customers")	283,000	343,000	397,000
Total customers	5,891,000	6,072,000	6,141,000
Total market population of consolidated operating markets(2)	46,888,000	46,546,000	46,306,000
Market penetration in consolidated operating markets(2)	12.6%	13.0%	13.3%
Total market population of consolidated operating and non-operating markets(2)	91,965,000	90,468,000	89,712,000
Market penetration in consolidated operating and non-operating markets(2)	6.4%	6.7%	6.8%
Employees			
Full-time employees	7,711	8,200	8,070
Part-time employees	1,032	1,049	1,170
Total employees	8,743	9,249	9,240
Cell sites in service	7,882	7,645	7,279
Smartphone penetration(3)(4)	30.5%	16.7%	7.0%

Table of Contents

Telephone and Data Systems, Inc.

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

For the Year Ended December 31,(5)	**2011**	**2010**	**2009**
Net retail customer additions (losses)(6)	(125,000)	(15,000)	37,000
Net customer losses(6)	(186,000)	(69,000)	(55,000)

Average monthly service revenue per customer(7)						
Service revenues per Consolidated Statement of Operations (000s)	$	4,053,797	$	3,913,001	$	3,927,128
Divided by total average customers during period (000s)		5,975		6,121		6,176
Divided by number of months in each period		12		12		12
Average monthly service revenue per customer	$	56.54	$	53.27	$	52.99
Postpaid churn rate(8)		1.5%		1.5%		1.6%
Smartphones sold as a percent of total devices sold(3)		44.0%		24.6%		10.2%

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

(2) Calculated using 2010, 2009 and 2008 Claritas population estimates for 2011, 2010 and 2009, respectively. "Total market population of consolidated operating markets" is used only for the purposes of calculating market penetration of consolidated operating markets, which is calculated by dividing customers by the total market population (without duplication of population in overlapping markets).

The total market population and penetration measures for consolidated operating markets apply to markets in which U.S. Cellular provides wireless service to customers.

(3) Smartphones represent wireless devices which run on an Android™, BlackBerry® or Windows Mobile®, operating systems, excluding tablets.

(4) Smartphone penetration is calculated by dividing postpaid smartphone customers by total postpaid customers.

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

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

(7) Management uses these measurements to assess the amount of revenue that U.S. Cellular generates each month on a per customer basis. Average monthly revenue per customer is calculated as shown in the table above. "Average customers during the period" is calculated by adding the number of total customers at the beginning of the first month of the period and at the end of each month in the period and dividing by the number of months in the period plus one. Acquired and divested customers are included in the calculation on a prorated basis for the amount of time U.S. Cellular included such customers during each period.

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

Table of Contents

Telephone and Data Systems, Inc.

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

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2011	Increase/ (Decrease)	Percentage Change	2010	Increase/ (Decrease)	Percentage Change	2009
Retail service	$ 3,486,522	$ 26,976	1%	$ 3,459,546	$ (18,662)	(1)%	$ 3,478,208
Inbound roaming	348,309	95,019	38%	253,290	515		252,775
Other	218,966	18,801	9%	200,165	4,020	2%	196,145
Service revenues	4,053,797	140,796	4%	3,913,001	(14,127)		3,927,128
Equipment sales	289,549	24,869	9%	264,680	(22,072)	(8)%	286,752
Total operating revenues	4,343,346	165,665	4%	4,177,681	(36,199)	(1)%	4,213,880
System operations (excluding Depreciation, amortization and accretion reported below)	929,379	74,448	9%	854,931	52,077	6%	802,854
Cost of equipment sold	782,300	39,319	5%	742,981	(12)		742,993
Selling, general and administrative	1,779,203	(17,421)	(1)%	1,796,624	49,220	3%	1,747,404
Depreciation, amortization and accretion	573,557	2,602		570,955	6,020	1%	564,935
Loss on impairment of intangible assets			N/M		(14,000)	N/M	14,000
(Gain) loss on asset disposals and exchanges, net	(1,873)	(12,590)	>100%	10,717	(5,452)	(34)%	16,169
Total operating expenses	4,062,566	86,358	2%	3,976,208	87,853	2%	3,888,355
Operating income	$ 280,780	$ 79,307	39%	$ 201,473	$ (124,052)	(38)%	$ 325,525

Operating Revenues

Service revenues

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

Retail service revenues

The increase in Retail service revenues in 2011 was primarily due to an increase in the average monthly retail service revenue per customer partially offset by a decrease in U.S. Cellular's average customer base. The decrease in 2010 was primarily due to a decrease in average customer base partially offset by an increase in average monthly retail service revenue per customer.

The average number of customers decreased to 5,975,000 in 2011 from 6,121,000 in 2010, driven by reductions in postpaid, reseller and prepaid customers. The average number of customers in 2010 decreased from 6,176,000 in 2009 driven by reductions in postpaid and reseller customers.

Average monthly retail service revenue per customer increased to $48.63 in 2011 from $47.10 in 2010, and in 2010 increased slightly from $46.93 in 2009. The average monthly retail service revenue increase in 2011 from 2010 reflect the impact of a larger portion of the customer base subscribing to rate plans that include data access and higher ARPU Belief Plans, and consequently, higher monthly service plan rates. The average monthly retail service revenue increase in both years also includes the impact of a reduction in the number of reseller customers, who typically generate lower average monthly revenues.

U.S. Cellular expects continued pressure on revenues in the foreseeable future due to industry competition for customers and related effects on pricing of service plan offerings offset to some degree by continued adoption of smartphones and data usage.

As discussed in the Overview section above, on October 1, 2010, U.S. Cellular introduced The Belief Project, which allows customers selecting Belief Plans to earn loyalty reward points. U.S. Cellular accounts for loyalty reward points under the deferred revenue method. Under this method, U.S. Cellular

Telephone and Data Systems, Inc.

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

allocates a portion of the revenue billed to customers under the Belief Plans to the loyalty reward points. The revenue allocated to these points is initially deferred in the Consolidated Balance Sheet and is recognized in future periods when the loyalty reward points are redeemed or used. Application of the deferred revenue method of accounting related to loyalty reward points resulted in deferring net revenues of $31.8 million in 2011 and $7.1 million in 2010. These amounts are included in the Customer deposits and deferred revenues in the Consolidated Balance Sheet at December 31, 2011 and December 31, 2010.

Inbound roaming revenues

Inbound roaming revenues increased $95.0 million, or 38% in 2011 compared to 2010 as an increase in revenues from data roaming was partially offset by a decline in voice roaming revenues. In 2010, inbound roaming revenues were relatively flat compared to 2009 as an increase in data roaming revenues was mostly offset by a decrease in voice roaming revenues. Inbound roaming revenues declined significantly in 2009 as a result of Verizon's acquisition of Alltel in early 2009 and the combination of these entities' network footprints. The increase in Inbound roaming revenues in 2011 represents the positive impact of increasing data usage by the customers of U.S. Cellular's roaming partners. U.S. Cellular expects continued growth in Inbound roaming revenue but expects that the rate of growth in future years will be less than the rate experienced in 2011.

Other revenues

Other revenues increased by $18.8 million, or 9%, in 2011 compared to 2010. This increase was driven primarily by increased ETC revenues due to expanded eligibility in certain states and adjustments by the Universal Service Administrative Company ("USAC") that reduced amounts received in prior years. In 2010, Other revenues increased by $4.0 million, or 2%, primarily due to increases in other revenues from tower and spectrum leases offset by a decrease in ETC revenues. The decrease in ETC revenues in 2010 was primarily the result of a retroactive adjustment made by USAC resulting in a reduction of revenues of $3.6 million. U.S. Cellular was eligible to receive ETC funds in sixteen states in 2011, 2010 and 2009. ETC revenues recorded in 2011, 2010 and 2009 were $160.5 million, $143.9 million and $150.7 million, respectively.

On November 18, 2011 the FCC 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 are eligible to receive funds in both the CAF and the Mobility Fund, although some 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.

U.S. Cellular is contemplating participating in the Mobility Fund proceedings, and the CAF, 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

Telephone and Data Systems, Inc.

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

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.

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.

Equipment sales revenues

Equipment sales revenues include revenues from sales of wireless devices (handsets, modems and tablets) and related accessories to both new and existing customers, as well as revenues from sales of wireless devices and accessories to agents. All equipment sales revenues are recorded net of rebates.

U.S. Cellular offers a competitive line of quality wireless devices to both new and existing customers. U.S. Cellular's customer acquisition and retention efforts include offering new wireless devices to customers at discounted prices; in addition, customers on the new Belief Plans receive loyalty reward points that may be used to purchase a new wireless device or accelerate the timing of a customer's eligibility for a wireless device upgrade at promotional pricing. U.S. Cellular also continues to sell wireless devices to agents; this practice enables U.S. Cellular to provide better control over the quality of wireless devices sold to its customers, establish roaming preferences and earn quantity discounts from wireless device manufacturers which are passed along to agents. U.S. Cellular anticipates that it will continue to sell wireless devices to agents in the future.

The increase in 2011 equipment sales revenues was driven by a 15% increase in average revenue per wireless device sold offset by a 4% decrease in total wireless devices sold. Average revenue per wireless device sold increased due to a shift in customer preference to higher priced smartphones. The decrease in 2010 equipment sales revenues was driven by declines of 5% in total wireless devices sold and 5% in average revenue per wireless device sold. Average revenue per wireless device sold declined due to aggressive promotional pricing across all categories of wireless devices.

Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

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

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

- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased $45.4 million, or 22%, in 2011 and $2.6 million, or 1%, in 2010. The increases were primarily due to increases from data roaming offset by a decline in voice roaming expenses.

- Maintenance, utility and cell site expenses increased $26.4 million, or 7%, in 2011 and $25.2 million, or 8%, in 2010, driven primarily by increases in the number of cell sites within U.S. Cellular's network. The number of cell sites totaled 7,882, 7,645 and 7,279 in 2011, 2010 and 2009, respectively, as U.S. Cellular continued to expand and enhance coverage in its existing markets. The increases in expenses were also due to an increase in software maintenance costs to support rapidly growing data needs.

- Customer usage expenses increased by $2.7 million, or 1%, in 2011, and $24.2 million, or 9%, in 2010, primarily due to an increase in data usage in both years.

Telephone and Data Systems, Inc.

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

U.S. Cellular expects total system operations expenses to increase on a year-over-year basis in the foreseeable future to support the continued growth in cell sites and other network facilities as it continues to add capacity, enhance quality and deploy new technologies as well as to support increases in total customer usage, particularly data usage.

Cost of equipment sold

Cost of equipment sold increased by 5% in 2011 compared to 2010 and remained relatively flat in 2010 compared to 2009. In both years, a decline in total wireless devices sold was offset by an increase in the average cost per wireless device sold due to a shift in the mix of sales to wireless devices with expanded capabilities, such as smartphones.

U.S. Cellular's loss on equipment, defined as equipment sales revenues less cost of equipment sold, was $492.8 million, $478.3 million and $456.2 million for 2011, 2010 and 2009, respectively. U.S. Cellular expects loss on equipment to continue to be a significant cost in the foreseeable future as wireless carriers continue to use device availability and pricing as a means of competitive differentiation. In addition, U.S. Cellular expects increasing sales of data centric wireless devices such as smartphones and tablets to result in higher equipment subsidies over time; these devices generally have higher purchase costs which cannot be recovered through proportionately higher selling prices to customers. Smartphones sold as a percentage of total devices sold was 44%, 25% and 10% in 2011, 2010 and 2009, respectively.

Selling, general and administrative expenses

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

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

2011

- Selling and marketing expenses decreased by $13.7 million, or 2%, primarily due to lower advertising costs as a result of shifting advertising efforts to more cost effective methods as well as lower commissions expense reflecting fewer eligible transactions.

- General and administrative expenses decreased by $3.7 million, reflecting a discrete adjustment to property tax expense and continued cost containment efforts. See footnotes to Consolidated Quarterly Information for additional information.

2010

- Selling and marketing expenses increased by $9.3 million, or 1%, primarily due to higher sales related expenses and higher advertising expenses due to an increase in media purchases, partially offset by lower commissions expense reflecting fewer eligible customer additions. In 2010, media purchases included advertising expenses related to the launch of The Belief Project.

Telephone and Data Systems, Inc.

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

General and administrative expenses increased $39 million, or 4%, due to higher costs related to investments in multi-year initiatives for business support systems as described in the Overview section; and higher USF contributions (most of the USF contribution expense is offset by revenues for amounts passed through to customers). These increases were partially offset by a reduction in bad debts expense.

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

Depreciation, amortization and accretion

Depreciation, amortization and accretion expense was relatively flat in 2011 and 2010 compared to the prior year.

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

Loss on impairment of intangible assets

There was no Loss on impairment of intangible assets in 2011 or 2010.

U.S. Cellular recognized impairment losses on licenses of $14.0 million in 2009. The impairment losses in 2009 were recognized as a result of the annual impairment assessment of licenses and goodwill performed during the fourth quarter of 2009. The assessment indicated that the fair value of certain U.S. Cellular operating licenses had declined compared to the fair values of those licenses as of December 31, 2008.

RESULTS OF OPERATIONS TDS TELECOM

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

As of December 31,	2011	2010	2009
ILEC			
Equivalent access lines(1)	754,400	767,200	775,900
Physical access lines	482,000	507,700	536,300
High-speed data customers	238,400	227,700	208,300
managedIP stations	6,900	3,600	1,900
Long-distance customers	371,500	370,100	362,800
CLEC			
Equivalent access lines(2)	317,500	335,400	355,900
High-speed data customers	28,900	33,100	36,900
managedIP stations	36,200	23,800	12,000
TDS Telecom Employees			
Full-time employees	2,817	2,495	2,529
Part-time employees	31	38	36
Total employees	2,848	2,533	2,565

(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.

16

Table of Contents

Telephone and Data Systems, Inc.

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

(2) The decline in equivalent access lines is primarily the result of a shift in marketing focus from residential and commercial customers to exclusively commercial customers.

TDS Telecom Total (ILEC and CLEC Operations)

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2011	Change	Percentage Change	2010	Change	Percentage Change	2009
Operating revenues							
ILEC revenues	$ 644,991	$ 27,597	4%	$ 617,394	$ 17,867	3%	$ 599,527
CLEC revenues	180,332	(7,652)	(4)%	187,984	(11,391)	(6)%	199,375
Intra-company elimination	(9,935)	(399)	(4)%	(9,536)	(486)	(5)%	(9,050)
TDS Telecom operating revenues	815,388	19,546	2%	795,842	5,990	1%	789,852
Operating expenses							
ILEC expenses	548,754	29,292	6%	519,462	10,065	2%	509,397
CLEC expenses	177,918	(8,164)	(4)%	186,082	(9,938)	(5)%	196,020
Intra-company elimination	(9,935)	(399)	(4)%	(9,536)	(486)	(5)%	(9,050)
TDS Telecom operating expenses	716,737	20,729	3%	696,008	(359)		696,367
TDS Telecom operating income	$ 98,651	$ (1,183)	(1)%	$ 99,834	$ 6,349	7%	$ 93,485

ILEC Operations

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2011	Change	Percentage Change	2010	Change	Percentage Change	2009
Operating revenues							
Voice revenues	$ 170,238	$ (9,301)	(5)%	$ 179,539	$ (7,684)	(4)%	$ 187,223
Data revenues	169,450	43,421	34%	126,029	22,347	22%	103,682
Network access revenues	265,773	(6,191)	(2)%	271,964	688		271,276
Miscellaneous revenues	39,530	(332)	(1)%	39,862	2,516	7%	37,346
Total operating revenues	644,991	27,597	4%	617,394	17,867	3%	599,527
Operating expenses							
Cost of services and products (excluding depreciation, amortization and accretion reported below)	215,093	18,795	10%	196,298	2,268	1%	194,030
Selling, general and administrative expenses	173,949	929	1%	173,020	2,515	1%	170,505
Depreciation, amortization and accretion	158,554	9,179	6%	149,375	6,462	5%	142,913
Loss on asset disposals, net	1,158	389	51%	769	(1,180)	(61)%	1,949
Total operating expenses	548,754	29,292	6%	519,462	10,065	2%	509,397
Total operating income	$ 96,237	$ (1,695)	(2)%	$ 97,932	$ 7,802	9%	$ 90,130

17

Table of Contents

Telephone and Data Systems, Inc.

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

Operating Revenues

Voice revenues

Voice revenues consist of charges for the provision of local telephone exchange service and reselling long-distance service. The decreases in Voice revenues in 2011 and 2010 were primarily driven by declines in the average physical access lines of 5% and 6% respectively, which negatively impacted local service revenues by $7.5 million and $8.3 million. Additionally, local service and long-distance revenues decreased $1.6 million and $2.9 million in 2011 and 2010, respectively, due to discounts attributed to bundled offerings, which encourage customers to subscribe to multiple services at lower monthly service plan rates.

Acquisitions added $1.3 million to Voice revenues in 2010 compared to 2009.

Data revenues

Data revenues consist of charges for providing Internet and other data related services. Acquisitions of the Hosted and Managed Services companies increased Data revenues $34.7 million and $11.3 million in 2011 and 2010, respectively. Revenues from Hosted and Managed Services companies comprised 28% and 8% of Data revenues in 2011 and 2010, respectively.

Additionally, the growth in Data revenues in 2011 and in 2010 was due to growth in average High-speed data customers of 6% and 12% in 2011 and 2010, respectively. These additional customers resulted in increased Data revenues of $6.4 million in 2011 and $11.3 million in 2010. Increase in usage of other data products also increased Data revenues by $1.9 million in 2011 and $2.0 million in 2010. These increases were partially offset by decreases in Dial-up Internet customers which decreased Data revenues $1.4 million and $2.9 million in 2011 and 2010, respectively.

Network access revenues

Network access revenues represent compensation from other telecommunication carriers for carrying long-distance traffic on TDS Telecom's local telephone network and for local interconnection. Network access revenues decreased $4.2 million in 2011 due to a 9% decline in intra-state minutes of use and $2.4 million due to declines in revenues received through inter-state regulatory recovery mechanisms. Partially offsetting these decreases was an increase of $1.2 million in Network access revenues received from state Universal Service Funding programs. TDS Telecom expects Network access revenues to continue to decline in 2012.

Network access revenues increased by $2.0 million in 2010 primarily due to an increase in expenses recoverable through inter-state regulatory recovery mechanisms. Acquisitions also added $2.6 million to Network access revenues in 2010. Partially offsetting these increases was a $3.0 million decrease due to a decline in intra-state minutes of use of 5%. Network access revenues also decreased comparatively in 2010 due to the settlement of the National Exchange Carrier Association's interstate revenue pools for the years 2003 through 2006 which contributed $1.7 million to revenues in 2009.

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, 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 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

Telephone and Data Systems, Inc.

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

numerous Petitions for Reconsideration, which asks the FCC to reconsider portions of its decision, and it is also the subject of numerous judicial appeals. TDS Telecom cannot predict the outcome of future rulemaking, reconsideration and legal challenges and as a consequence, the impacts these may have on TDS Telecom's Network access revenues.

Miscellaneous revenues

Miscellaneous revenues, which include charges for selling direct broadcast satellite service and leasing, selling, installing and maintaining customer premise equipment as well as other miscellaneous services, increased $3.2 million and $3.6 million in 2011 and 2010, respectively, due to an increase in satellite TV and terrestrial video subscribers and changes in promotions. Decreased business systems sales resulted in a reduction of Miscellaneous revenues by $3.2 million in 2011 and $1.8 million in 2010.

Operating Expenses

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

Acquisitions increased Cost of services and products $19.1 million in 2011. Partially offsetting this increase was $2.7 million of reduced network costs primarily resulting from improved circuit infrastructure and traffic routing.

The increase in Cost of services and products expense in 2010 was primarily the result of $6.2 million of expense from acquisitions. Additionally, labor related expense including employee and contractor charges decreased $6.5 million due to workforce reduction initiatives.

Selling, general and administrative expenses

Acquisitions increased Selling, general and administrative expenses $9.9 million in 2011. Discrete items, including; receipt of insurance proceeds in 2011 related to an asset loss recorded in 2010, the refund of certain prior year regulatory contributions and the settlement of a legal dispute reduced Selling, general and administrative expenses by $9.4 million in 2011.

The increase in Selling, general and administrative expenses in 2010 was primarily the result of $5.6 million of expense from acquisitions. Other Selling, general and administrative expenses increased $1.9 million due to higher Universal Service Fund contribution rates, and $1.2 million in legal and consulting costs incurred to complete the acquisitions. A discrete expense of $1.6 million was also recorded in 2010 for an asset loss for which an insurance claim was filed. Offsetting these increases was the impact of workforce reductions made in 2009 including employee benefit modifications, which decreased employee costs by $6.8 million in 2010.

Depreciation, amortization and accretion expense

Acquisitions increased depreciation, amortization and accretion expense $9.1 million and $4.7 million in 2011 and 2010, respectively.

Telephone and Data Systems, Inc.

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

CLEC Operations

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2011	Change	Percentage Change	2010	Change	Percentage Change	2009