IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM, Plaintiff, v. LEROY T. CARLSON, LEROY T. CARLSON, JR., WALTER C.D. CARLSON, J. SAMUEL CROWLEY, RONALD E. DALY, PAUL-HENRI DENUIT, HARRY J. HARCZAK, JR., KENNETH R. MEYERS, JOHN E. ROONEY, and TELEPHONE AND DATA SYSTEMS, INC., a Delaware corporation, Defendants, -and- UNITED STATES CELLULAR CORPORATION, a Delaware corporation, Nominal Defendant.	)	C.A. No.

VERIFIED DERIVATIVE COMPLAINT

Plaintiff Monroe County Employees' Retirement System ("Monroe"), by its undersigned attorneys, as and for its Complaint herein alleges, upon knowledge as to itself and its own actions, and upon information and belief as to all other matters, as follows:

SUMMARY OF THE ACTION

1. In this derivative action, brought on behalf of United States Cellular Corporation ("US Cellular" or the "Company"), Monroe challenges the blatant disregard of US Cellular's economic interests and of its directors' fiduciary duties. US Cellular has been paying "service" fees to its parent company, Telephone and Data Systems, Inc. ("TDS") for the provision of accounting, human resources and other administrative services on terms unilaterally set by TDS. Despite the interested nature of these transactions, the directors of US Cellular have never reviewed the terms on which these payments are made for their substantive fairness to US Cellular.

2. The reason for this abdication of duty is TDS's control of US Cellular. TDS elects six of US Cellular's nine directors, three of whom are members of the Carlson family which controls TDS. TDS justifies these payments as being on the same terms as TDS allocates costs and fees to all of its non-telephone company subsidiaries. This "fact," however, does not serve as any kind of market check for the true cost of these services. Moreover, TDS is in no position to justify the appropriateness of these allocations as its internal accounting controls are so inadequate TDS has had to restate its own financials twice in recent years.

3. The payments US Cellular has been forced to make to TDS are substantial. Over the last three years, US Cellular paid TDS $292.6 million for services and $44.2 million to TDS and its affiliates for equipment. Since 1993 US Cellular has paid $861.7 million for services and $100.8 million for equipment to TDS and its affiliates – all without any substantive review by US Cellular's board.

4. Monroe seeks recompense for the harm done to US Cellular as a result of these unjustified payments. For all the reasons described below, Monroe alleges that the US Cellular board and TDS breached their fiduciary duties in causing these payments.

THE PARTIES

5. Plaintiff Monroe is a single-employer defined benefit contributory pension plan administered by the Monroe County Employees' Retirement System Board of Trustees. Monroe primarily provides pension, disability and death benefits for substantially all full-time employees of Monroe County and its component units. At all times alleged herein, Monroe has been a holder of common stock of US Cellular, and will retain holdings in the Company through the course of this litigation.

6. Nominal Defendant US Cellular is a Delaware corporation with its principal place of business located in Chicago, Illinois. US Cellular is the fifth-largest full-service wireless service provider in the United States.

7. Defendant TDS is a Delaware corporation, and maintains its principal place of business in Chicago, Illinois. TDS is a diversified telecommunications service company with wireless operations provided by TDS's 81%-owned subsidiary, US Cellular, and wireline operations provided by its wholly owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom"). TDS also conducts printing and distribution services through its 80%-owned subsidiary, Suttle-Straus, Inc. ("Suttle-Straus").

8. Defendant LeRoy T. Carlson ("Carlson") is a director of US Cellular, and is elected by US Cellular's Series A Shares, which are owned exclusively by TDS.

LeRoy T. Carlson was the Chairman of TDS until 2002, when he was appointed Chairman Emeritus. TDS describes the Chairman Emeritus position as an executive officer position at TDS, for which Carlson is paid a base salary of $480,000 plus a bonus (which was $165,800 for his performance in 2008). LeRoy T. Carlson is the father of US Cellular directors LeRoy T. Carlson, Jr. and Walter C.D. Carlson. He is also the father of Letitia and Prudence Carlson, who with their brothers LeRoy, Jr. and Walter are TDS directors.

9. Defendant LeRoy T. Carlson, Jr. ("LeRoy, Jr.") is the Chairman of the US Cellular board, and is elected by US Cellular's Series A Shares, which are owned exclusively by TDS. LeRoy, Jr. is also a director, President and Chief Executive Officer of TDS.

10. Defendant Walter C.D. Carlson ("Walter") is a director of US Cellular, and is elected by US Cellular's Series A Shares, which are owned exclusively by TDS. He is also the non-executive Chair of the TDS board.

11. Defendant John E. Rooney ("Rooney") is a director of US Cellular, and is elected by US Cellular's Series A Shares, which are owned exclusively by TDS. Rooney is also the President and Chief Executive Officer of US Cellular.

12. Defendant Kenneth Meyers ("Meyers") is a director of US Cellular, and is elected by US Cellular's Series A Shares, which are owned exclusively by TDS. Meyers is also a director, the Chief Financial Officer and the Executive Vice President of TDS.

13. Defendant Ronald E. Daly ("Daly") is a director of US Cellular, and is elected by US Cellular's Series A Shares, which are owned exclusively by TDS.

14. Defendant Paul-Henri Denuit ("Denuit") is a director of US Cellular elected by US Cellular's common shares. Denuit serves on US Cellular's Audit Committee.

15. Defendant Harry J. Harczak, Jr. ("Harczak") is a director of US Cellular elected by US Cellular's common shares. Harczak serves on US Cellular's Audit Committee.

16. Defendant J. Samuel Crowley ("Crowley") is a director of US Cellular elected by US Cellular's common shares. Crowley chairs US Cellular's Audit Committee.

17. Carlson, LeRoy, Jr., Walter, Rooney, Meyers, Daly, Denuit, Harczak and Crowley are collectively referred to herein as the "Individual Defendants."

FACTUAL BACKGROUND

18. US Cellular, the fifth largest full service wireless service provider in the United States, has two classes of shares, Series A Common shares ("Series A Shares") and common shares ("Common Shares"). The Series A Shares, which are entitled to ten votes per share, are owned entirely by TDS. TDS also owns approximately 70.1% of the outstanding Common Shares, which are entitled to one vote per share. Under the US Cellular charter, TDS, as the sole Series A Shares holder, is entitled to elect 75% of the US Cellular board, while the Common Shares are entitled to elect 25% of the board. US Cellular currently has a nine person board, three of whom are elected by the Common Shares and six of whom are elected by TDS.

19. US Cellular had its initial public offering in 1988. Before that offering

and ever since that time, TDS purportedly has provided "services relating to operations, marketing, human resources, accounting, customer services, customer billing, finance, and general administration" to US Cellular pursuant to an intercompany agreement. US Cellular Form 14a filed with the Securities and Exchange Commission on April 15, 2009 ("2009 Proxy"), at 81. Part of the amount US Cellular pays for these services is for a management fee, which is recorded as a single expense by U.S. Cellular. According to the 2009 Proxy, "U.S. Cellular does not obtain details of the components that make up this fee and does not segregate this fee or allocate any part of the management fee to other accounts such as compensation expense." *Id.* at 57. In 2008, approximately 78% of LeRoy, Jr.'s compensation expense, approximately 79% of Meyers' compensation expense, and approximately 78% of Carlson's compensation expense incurred by TDS were included by TDS in the total management fee to U.S. Cellular. The percentages are similar for 2006 and 2007.

20. For these "services," US Cellular has paid TDS several hundred million dollars since its IPO. The amount that US Cellular pays TDS each year is purportedly established "in conformity with the customary practices of TDS for charging TDS' non-telephone company subsidiaries." 2009 Proxy at 81.

21. US Cellular also purchases equipment from TDS and its subsidiaries, purportedly on the same terms as any other TDS affiliate would pay for such equipment. US Cellular has paid TDS and its subsidiaries well over $100 million for these equipment purchases since US Cellular's initial public offering.

22. In the last three years, US Cellular has paid TDS $292.6 million for

services ($100.3 million in 2006, $105.6 million in 2007 and $86.7 million in 2008) and $44.2 million for equipment purchases ($8.5 million in 2006, $16.2 million in 2007 and $19.5 million in 2008).

23. There as been no substantive review of the fairness of these intercompany payments by US Cellular to TDS since US Cellular became a public company.

24. US Cellular's Audit Committee is charged with reviewing all related party transactions, including the intercompany payments from US Cellular to TDS. The 2009 Proxy states that the US Cellular Audit Committee "exercised oversight over related-party transactions [including those with TDS], but did not take any formal action to approve any related-party transactions." Id. at 13. Amazingly, the Audit Committee also did not take any action to approve the payments to TDS in either 2007 or 2006. This "oversight" by the Audit Committee consisted of allowing US Cellular to pay for services and equipment from TDS in these years at a price established by TDS's customs and practices rather than conducting an appropriate review consisting of a market price check and other methods for determining if US Cellular was paying a fair price.

25. This failure by US Cellular's Audit Committee is compounded by the fact that the Committee was relying on the customs and practices in price setting and allocation of a company whose internal financial controls were deficient. In TDS's Forms 10-K filed in 2006 and 2007, TDS admitted that its internal financial controls had the following outstanding material weaknesses:

a. TDS did not have a sufficient number of personnel with the appropriate level of accounting knowledge and training in generally accepted accounting principles to handle the complexity of TDS's operations and transactions;

b. the controls meant to assure the accuracy of recording transfers and disposal of equipment were deficient;

c. the controls meant to assure the accurate calculation of income tax were deficient; and

d. the controls meant to assure the accuracy of lease information were deficient.

26. In fact, TDS's internal financial controls were so deficient the Securities and Exchange Commission opened an inquiry of TDS's accounting practices and TDS had to restate its financials twice in recent years. Despite these facts, and the fact that one of the services TDS is purportedly providing to US Cellular is accounting, the US Cellular board as a whole and its Audit Committee in particular have not done anything to assure that TDS is providing cost efficient services to US Cellular.

27. Thus, over the last three years, US Cellular has paid TDS almost $300 million with no one at US Cellular exercising a business judgment as to whether such payments were necessary or otherwise in the interests of US Cellular.

DERIVATIVE ALLEGATIONS

28. Monroe brings this action derivatively for the benefit of US Cellular to

redress injuries suffered and to be suffered by US Cellular as a direct result of the breaches of fiduciary duty by the defendants.

29. Monroe has owned US Cellular stock continuously throughout the course of wrongful conduct by the defendants alleged herein, and will continue to hold US Cellular stock throughout the course of this litigation.

30. Monroe will adequately and fairly represent the interests of US Cellular and its shareholders in enforcing and prosecuting its rights and has retained counsel competent and experienced in shareholder derivative litigation.

DEMAND ON THE US CELLULAR BOARD IS EXCUSED

31. Monroe hereby realleges and incorporates the allegations set forth in the preceding paragraphs as if fully set forth herein.

32. TDS is US Cellular's majority shareholder, electing six of US Cellular's nine directors. TDS stands on both sides of the transactions challenged herein, namely the payments by US Cellular to TDS for service fees and equipment purchases. Due to this fact, business judgment does not apply to these transactions and therefore demand is excused.

33. Even if demand were not excused due to the fact that US Cellular's majority shareholder stood on both sides of the challenged transactions, demand would still have been excused because a majority of the directors on the board at the time of events challenged were either interested in the transactions or lacked independence from TDS and the defendants who were financially interested in the transactions.

34. Defendants LeRoy, Jr., Walter and Meyers cannot impartially consider a

demand because they simultaneously serve as both US Cellular directors and TDS directors. This is the classic conflict of interest that this Court has long recognized as disabling such directors from impartially considering demand regarding transactions between the Company and the majority shareholder.

35. LeRoy, Jr., Meyers and Carlson cannot impartially consider a demand because they are executive officers on the payroll of TDS. As such, they have conflicting loyalties between TDS and US Cellular – loyalties which clearly run to TDS rather than US Cellular.

36. Defendant Walter cannot impartially consider a demand for the additional reason that he is a partner in the law firm of Sidley & Austin, which has received legal fees from US Cellular of nearly $6.9 million for each of 2006, 2007 and 2008. For each those same years, Sidley & Austin billed TDS an average of $5 million.

37. Defendants Carlson, LeRoy, Jr. and Walter cannot impartially consider a demand to sue each other as they are immediate family to one another. Moreover, suing TDS would directly impair the Carlson family's financial interests as their Voting Trust controls TDS.

38. Defendant Rooney cannot impartially consider a demand because he is an executive officer of US Cellular and as such, earns his livelihood at the pleasure of TDS and the conflicted members of the US Cellular board.

39. Carlson, LeRoy, Jr., Walter, Rooney and Meyers constitute a majority of the US Cellular board. As they are unable to consider a demand impartially, demand is excused.

40. Defendants Harczak, Denuit and Crowley cannot impartially consider a demand because it is their abdication of their duty to examine these transactions for their substantive fairness that allowed these transactions to occur. As members of the Audit Committee, they were charged with the responsibility of examining related party transactions for US Cellular. By their own admission, the only thing they did was "oversee" the relationship – they took no affirmative action to assure its fairness to US Cellular, in breach of their fiduciary duties.

COUNT I

(For Breach of The Fiduciary Duty of Loyalty
Against the Individual Defendants)

41. Monroe repeats and realleges all of the allegations contained in the preceding paragraphs as if fully set forth herein.

42. The Individual Defendants, as directors and/or officers of US Cellular at all times relevant to this count, owed US Cellular the highest duties of good faith, fair dealing and loyalty.

43. The Individual Defendants breached their fiduciary duty of loyalty by allowing US Cellular to enter into the service and equipment purchase transactions with TDS on terms dictated by TDS. These transactions resulted in the payment of hundreds of millions of dollars by US Cellular to TDS without any determination of whether they were substantively fair to US Cellular. These defendants preferred their own and TDS's interests to those of US Cellular.

44. As a result of the Individual Defendants' breaches of fiduciary duty, US Cellular has been and continues to be damaged.

COUNT II

(For Breach of Fiduciary Duty Against Defendant TDS)

45. Monroe repeats and realleges all of the allegations contained in the preceding paragraphs as if fully set forth herein.

46. Defendants TDS, as the majority shareholder of US Cellular at all times relevant to this count, owed US Cellular the highest duties of good faith, fair dealing and loyalty.

47. TDS breached its fiduciary duties by causing the service and equipment purchase transactions with US Cellular on terms dictated by TDS. These terms were substantively unfair to US Cellular and improperly favored TDS's interests over the interests of US Cellular.

48. As a result of the breaches of fiduciary duty by Defendant TDS, US Cellular has been and continues to be damaged.

COUNT III

(Against Defendant TDS For Unjust Enrichment)

49. Monroe repeats and realleges all of the allegations contained in the preceding paragraphs as if fully set forth herein.

50. Monroe brings this count derivatively on behalf of US Cellular against Defendant TDS for unjust enrichment.

51. Defendant TDS was the recipient of hundreds of millions of dollars in service fee and equipment purchase payments by US Cellular. Those payments occurred as a result of the Individual Defendants' favoring TDS's interests over those of US

Cellular.

52. TDS accepted these payments from US Cellular knowing that they were on made on terms that were substantively unfair to US Cellular.

53. TDS was unjustly enriched at US Cellular's expense. US Cellular has been and continues to be damaged by these wrongful actions.

RELIEF REQUESTED

WHEREFORE, Monroe demands judgment in US Cellular's favor and prays that the Court enter judgment and relief in US Cellular's favor, and against Defendants on all counts, as follows:

(a) Declaring that the Individual Defendants breached their fiduciary duties of loyalty in allowing the service fee and equipment purchase payments from US Cellular to TDS;

(b) Declaring that Defendant TDS breached its fiduciary duties by causing the service fee and equipment purchase payments from US Cellular to itself on terms that were substantively unfair to US Cellular;

(c) Declaring that Defendant TDS was unjustly enriched by the service fee and equipment purchase payments on terms that were substantively unfair to US Cellular;

(d) Imposing a constructive trust on the assets of TDS in the value of all service fee and equipment purchase payments made by US Cellular to TDS from 2006 to 2008;

(e) Awarding compensatory damages to US Cellular, including pre- and post-judgment interest thereon;

(f) Awarding Monroe the costs and expenses incurred in this action, including but not limited to, attorneys' and expert fees; and

(g) Granting such other relief as may be just and proper.

DATED: May 13, 2009

<u>/s/ Jay W. Eisenhofer</u>
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