

TELEPHONE & DATA SYSTEMS INC /DE/

Form 10-Q

August 06, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from to

Commission File Number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

36-2669023
(I.R.S. Employer Identification No.)

30 North LaSalle Street, Chicago, Illinois 60602
(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

| Class | Outstanding at June 30, 2009 |
|---|------------------------------|
| Common Shares, \$.01 par value | 51,651,691 Shares |
| Special Common Shares, \$.01 par value | 50,959,100 Shares |
| Series A Common Shares, \$.01 par value | 6,477,322 Shares |

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Telephone and Data Systems, Inc.

Quarterly Report on Form 10-Q

For the Period Ended June 30, 2009

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|--------------|------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| | (Dollars and shares in thousands, except per share amounts) | | | |
| Operating revenues | \$ 1,242,477 | \$ 1,274,351 | \$ 2,499,123 | \$ 2,523,452 |
| Operating expenses | | | | |
| Cost of services and products (excluding Depreciation, amortization and accretion expense reported below) | 431,119 | 456,796 | 898,526 | 903,187 |
| Selling, general and administrative expense | 470,913 | 473,348 | 938,761 | 932,639 |
| Depreciation, amortization and accretion expense | 183,349 | 188,026 | 366,115 | 374,184 |
| Loss on asset disposals, net | 2,496 | 6,438 | 4,912 | 10,090 |
| Total operating expenses | 1,087,877 | 1,124,608 | 2,208,314 | 2,220,100 |
| Operating income | 154,600 | 149,743 | 290,809 | 303,352 |
| Investment and other income (expense) | | | | |
| Equity in earnings of unconsolidated entities | 18,363 | 22,909 | 43,700 | 44,379 |
| Interest and dividend income | 2,902 | 17,455 | 4,974 | 27,201 |
| Interest expense | (32,245) | (35,570) | (62,350) | (76,950) |
| Gain (loss) on investments and financial instruments | | 3,088 | | (402) |
| Other, net | (25) | 1,902 | 474 | 1,703 |
| Total investment and other income (expense) | (11,005) | 9,784 | (13,202) | (4,069) |
| Income before income taxes | 143,595 | 159,527 | 277,607 | 299,283 |
| Income tax expense | 53,036 | 53,261 | 93,674 | 102,512 |
| Net income | 90,559 | 106,266 | 183,933 | 196,771 |
| Less: Net income attributable to noncontrolling interests, net of tax | (20,828) | (18,509) | (42,194) | (35,527) |
| Net income attributable to TDS | 69,731 | 87,757 | 141,739 | 161,244 |
| Preferred dividend requirement | (13) | (13) | (26) | (26) |
| Net income available to common | \$ 69,718 | \$ 87,744 | \$ 141,713 | \$ 161,218 |
| Basic weighted average shares outstanding | 110,741 | 116,267 | 111,486 | 116,919 |
| Basic earnings per share attributable to TDS shareholders | \$ 0.63 | \$ 0.75 | \$ 1.27 | \$ 1.38 |
| Diluted weighted average shares outstanding | 110,971 | 116,814 | 111,698 | 117,500 |

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| | | | | | | | | |
|--|----|--------|----|--------|----|--------|----|--------|
| Diluted earnings per share attributable to TDS shareholders | \$ | 0.63 | \$ | 0.75 | \$ | 1.27 | \$ | 1.37 |
| Dividends per share | \$ | 0.1075 | \$ | 0.1025 | \$ | 0.2150 | \$ | 0.2050 |

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

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Telephone and Data Systems, Inc.

Consolidated Statement of Cash Flows(Unaudited)

| | Six Months Ended June 30, | |
|--|------------------------------|------------|
| | 2009 | 2008 |
| | (Dollars in thousands) | |
| Cash flows from operating activities | | |
| Net income | \$ 183,933 | \$ 196,771 |
| Add (deduct) adjustments to reconcile net income to net cash flows from operating activities | | |
| Depreciation, amortization and accretion | 366,115 | 374,184 |
| Bad debts expense | 42,761 | 36,806 |
| Stock-based compensation expense | 14,394 | 9,022 |
| Deferred income taxes, net | 16,237 | (316,269) |
| Loss on investments and financial instruments, net | | 402 |
| Equity in earnings of unconsolidated entities | (43,700) | (44,379) |
| Distributions from unconsolidated entities | 13,239 | 45,810 |
| Loss on asset disposals, net | 4,912 | 10,090 |
| Noncash interest expense | 2,170 | 7,930 |
| Excess tax benefit from stock awards | (4) | (1,706) |
| Other operating activities | (41) | (2,103) |
| Changes in assets and liabilities from operations | | |
| Accounts receivable | (62,870) | (59,440) |
| Inventory | (9,928) | (20,830) |
| Accounts payable | (63,963) | (4,171) |
| Customer deposits and deferred revenues | (4,824) | 10,303 |
| Accrued taxes | 56,741 | 304,231 |
| Accrued interest | 513 | (3,780) |
| Other assets and liabilities | (71,724) | (47,432) |
| | 443,961 | 495,439 |
| Cash flows from investing activities | | |
| Additions to property, plant and equipment | (290,821) | (299,061) |
| Cash paid for acquisitions and licenses | (15,042) | (334,350) |
| Cash received from divestitures | 50 | 6,838 |
| Proceeds from disposition of investments | | 226,644 |
| Cash paid to settle derivative liabilities | | (17,404) |
| Cash paid for short-term investments | (109,055) | |
| Other investing activities | 1,990 | (934) |
| | (412,878) | (418,267) |
| Cash flows from financing activities | | |
| Issuance of notes payable | | 100,000 |
| Repayment of notes payable | | (50,000) |
| Repayment of variable prepaid forward contracts | | (47,357) |
| Repayment of long-term debt | (1,655) | (6,442) |
| TDS Common Shares and Special Common Shares reissued for benefit plans, net of tax payments | 743 | 1,494 |

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| | | |
|---|------------------|-----------------|
| U.S. Cellular Common Shares reissued for benefit plans, net of tax payments | (405) | (1,878) |
| Excess tax benefit from stock awards | 4 | 1,706 |
| Repurchase of TDS Special Common Shares | (86,565) | (83,013) |
| Repurchase of U.S. Cellular Common Shares | (19,332) | (14,516) |
| Dividends paid | (23,814) | (23,922) |
| Payment of debt issuance costs | (9,959) | |
| Distributions to noncontrolling interests | (3,417) | (4,594) |
| Other financing activities | 765 | 2,067 |
| | (143,635) | (126,455) |
| Net decrease in cash and cash equivalents | (112,552) | (49,283) |
| Cash and cash equivalents - | | |
| Beginning of period | 777,309 | 1,174,446 |
| End of period | \$ 664,757 | \$ 1,125,163 |

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

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Telephone and Data Systems, Inc.

Consolidated Balance Sheet Assets

| | June 30, 2009 (Unaudited) | December 31, 2008 |
|---|---------------------------------|----------------------|
| | (Dollars in thousands) | |
| Current assets | | |
| Cash and cash equivalents | \$ 664,757 | \$ 777,309 |
| Short-term investments | 136,495 | 27,705 |
| Accounts receivable | | |
| Due from customers, less allowances of \$12,250 and \$12,822, respectively | 390,211 | 377,054 |
| Other, principally connecting companies, less allowances of \$5,935 and \$6,380, respectively | 151,017 | 139,795 |
| Inventory | 130,963 | 122,377 |
| Net deferred income tax asset | 27,758 | 27,758 |
| Prepaid expenses | 83,457 | 93,382 |
| Other current assets | 71,144 | 63,556 |
| | 1,655,802 | 1,628,936 |
| Investments | | |
| Licenses | 1,453,526 | 1,441,440 |
| Goodwill | 707,840 | 707,079 |
| Customer lists, net of accumulated amortization of \$103,734 and \$97,891, respectively | 28,189 | 34,032 |
| Investments in unconsolidated entities | 234,409 | 205,768 |
| Other investments | 10,177 | 10,623 |
| | 2,434,141 | 2,398,942 |
| Property, plant and equipment | | |
| In service and under construction | 8,447,510 | 8,680,388 |
| Less: accumulated depreciation | 4,944,900 | 5,111,464 |
| | 3,502,610 | 3,568,924 |
| Other assets and deferred charges | | |
| | 65,179 | 55,614 |
| Total assets | \$ 7,657,732 | \$ 7,652,416 |

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

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Telephone and Data Systems, Inc.

Consolidated Balance Sheet Liabilities and Stockholders Equity

| | June 30, 2009 (Unaudited) | December 31, 2008 |
|--|---------------------------------|----------------------|
| | (Dollars in thousands) | |
| Current liabilities | | |
| Current portion of long-term debt | \$ 17,427 | \$ 15,337 |
| Accounts payable | 258,484 | 319,575 |
| Customer deposits and deferred revenues | 169,277 | 174,101 |
| Accrued interest | 14,749 | 14,236 |
| Accrued taxes | 39,618 | 25,192 |
| Accrued compensation | 66,492 | 90,512 |
| Other current liabilities | 114,915 | 134,334 |
| | 680,962 | 773,287 |
| Deferred liabilities and credits | | |
| Net deferred income tax liability | 485,290 | 471,623 |
| Other deferred liabilities and credits | 383,507 | 368,045 |
| | 868,797 | 839,668 |
| Long-term debt | 1,619,341 | 1,621,422 |
| Commitments and contingencies | | |
| Noncontrolling interests with mandatory redemption features | 640 | 589 |
| Equity | | |
| TDS stockholders equity | | |
| Common Shares, par value \$.01 per share; authorized 100,000,000 shares; issued 57,082,000 shares | 571 | 571 |
| Special Common Shares, par value \$.01 per share; authorized 165,000,000 shares; issued 63,442,000 shares | 634 | 634 |
| Series A Common Shares, par value \$.01 per share; authorized 25,000,000 shares; issued and outstanding 6,477,000 and 6,461,000 shares, respectively | 65 | 65 |
| Capital in excess of par value | 2,075,420 | 2,066,597 |
| Treasury shares at cost: | | |
| Common Shares, 5,430,000 and 5,435,000 shares, respectively | (162,713) | (163,017) |
| Special Common Shares, 12,483,000 and 9,352,000 shares, respectively | (433,440) | (350,091) |
| Accumulated other comprehensive loss | (13,309) | (16,812) |
| Retained earnings | 2,346,702 | 2,229,540 |
| Total TDS stockholders equity | 3,813,930 | 3,767,487 |
| Nonredeemable preferred shares | 852 | 852 |
| Noncontrolling interests | 673,210 | 649,111 |
| Total equity | 4,487,992 | 4,417,450 |
| Total liabilities and equity | \$ 7,657,732 | \$ 7,652,416 |

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

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Telephone and Data Systems, Inc.

Consolidated Statement of Changes in Equity

(Unaudited)

| (Dollars in thousands) | | | | | TDS Shareholders | | | Retained Earnings | Total Shareholder Equity | Non | | Total Equity |
|--|---------------|-----------------------|------------------------|--------------------------------|------------------------|-------------------------|--------------------------------------|-------------------|--------------------------|-------------------|--------------------------|--------------|
| | Common Shares | Special Common Shares | Series A Common Shares | Capital in Excess of Par Value | Treasury Common Shares | Treasury Special Shares | Accumulated Other Comprehensive Loss | | | redeemable Shares | Noncontrolling Interests | |
| December 31, 2008 | \$ 571 | \$ 634 | \$ 65 | \$ 2,066,597 | \$ (163,017) | \$ (350,091) | \$ (16,812) | \$ 2,229,540 | \$ 3,767,487 | \$ 852 | \$ 649,111 | \$ 4,417,450 |
| Net income excluding portion attributable to noncontrolling interests with mandatory redemption features | | | | | | | | 141,739 | 141,739 | | 42,143 | 183,882 |
| Net unrealized losses on equity investments | | | | | | | (501) | | (501) | | | (501) |
| Changes in plan assets and projected benefit obligation related to retirement plans | | | | | | | 4,004 | | 4,004 | | | 4,004 |
| Dividends: | | | | | | | | | | | | |
| Common, Special Common and Series A Common Shares | | | | | | | | (23,788) | (23,788) | | | (23,788) |
| Preferred shares | | | | | | | | (26) | (26) | | | (26) |
| Repurchase of shares | | | | | | | (86,018) | | (86,018) | | | (86,018) |
| Dividend reinvestment plan | | | | (13) | 278 | 450 | | 79 | 794 | | | 794 |
| Incentive and compensation plans | | | | (53) | 26 | 2,219 | | (842) | 1,350 | | | 1,350 |
| Adjust investment in subsidiaries for repurchases, issuances and other compensation plans | | | | 2,545 | | | | | 2,545 | | (14,627) | (12,082) |

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| | | | |
|--|---------------------|---------------------|---------------------|
| Stock-based compensation awards | 6,420 | 6,420 | 6,420 |
| Tax windfall (shortfall) from stock awards | (76) | (76) | (76) |
| Distributions to noncontrolling interests | | | (3,417) (3,417) |
| June 30, 2009 | \$ 571 | \$ 634 | \$ 65 |
| | \$ 2,075,420 | \$ (162,713) | \$ (433,440) |
| | \$ (13,309) | \$ 2,346,702 | \$ 3,813,930 |
| | \$ 852 | \$ 673,210 | \$ 4,487,992 |

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

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Telephone and Data Systems, Inc.

Consolidated Statement of Changes in Equity

(Unaudited)

| (Dollars in thousands) | | | | | TDS Shareholders | | | Retained Earnings | Total Shareholder Equity | Non | | Total Equity |
|--|---------------|------------------------|---------------|--------------------------------|------------------------|-------------------------|--|---------------------|--------------------------|-----------------------------|--------------------------|---------------------|
| | Common Shares | Series A Common Shares | Common Shares | Capital in Excess of Par Value | Treasury Common Shares | Treasury Special Shares | Accumulated Other Comprehensive Income | | | redeemable Preferred Shares | Noncontrolling Interests | |
| December 31, 2007 | \$ 571 | \$ 634 | \$ 64 | \$ 2,048,110 | \$ (120,549) | \$ (204,919) | \$ 511,776 | \$ 1,690,651 | \$ 3,926,338 | \$ 860 | \$ 654,971 | \$ 4,582,169 |
| Net income excluding portion attributable to noncontrolling interests with mandatory redemption features | | | | | | | | 161,244 | 161,244 | | 36,613 | 197,857 |
| Net unrealized gains on securities | | | | | | | 399 | | 399 | | 8 | 407 |
| Adoption of FAS 159 | | | | | | | (502,677) | 502,677 | | | | |
| Changes in plan assets and projected benefit obligation related to retirement plans | | | | | | | 48 | | 48 | | | 48 |
| Dividends: | | | | | | | | | | | | |
| Common, Special Common and Series A Common Shares | | | | | | | | (23,896) | (23,896) | | | (23,896) |
| Preferred shares | | | | | | | | (26) | (26) | | | (26) |
| Repurchase of shares | | | | | | | (84,679) | | (84,679) | | | (84,679) |
| Dividend reinvestment plan | | | 1 | 1,078 | | | | | 1,079 | | | 1,079 |
| Incentive and compensation plans | | | | (145) | 2,038 | 5,912 | | (5,836) | 1,969 | | | 1,969 |
| Adjust investment in subsidiaries for repurchases, issuances and other | | | | 3,068 | | | | | 3,068 | | (4,164) | (1,096) |

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| | | | |
|--|---------------------|---------------------|---------------------|
| compensation plans | | | |
| Stock-based compensation awards | 2,541 | 2,541 | 2,541 |
| Tax windfall (shortfall) from stock awards | 1,025 | 1,025 | 1,025 |
| Distributions to noncontrolling interests | | (4,594) | (4,594) |
| June 30, 2008 | \$ 571 | \$ 634 | \$ 65 |
| | \$ 2,055,677 | \$ (118,511) | \$ (283,686) |
| | \$ 9,546 | \$ 2,324,814 | \$ 3,989,110 |
| | \$ 860 | \$ 682,834 | \$ 4,672,804 |

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The accounting policies of Telephone and Data Systems, Inc. (TDS) conform to accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts of TDS and its majority-owned subsidiaries, including TDS 81%-owned wireless telephone subsidiary, United States Cellular Corporation (U.S. Cellular®), TDS 100%-owned wireline telephone subsidiary, TDS Telecommunications Corporation (TDS Telecom®) and TDS 80%-owned printing and distribution company, Suttle-Straus, Inc. In addition, the consolidated financial statements include all entities in which TDS has a variable interest that requires TDS to recognize a majority of the entity's expected gains or losses. All material intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the 2009 presentation.

The consolidated financial statements included herein have been prepared by TDS, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, TDS believes that the disclosures included herein are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in TDS Annual Report on Form 10-K for the year ended December 31, 2008.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items unless otherwise disclosed) necessary to present fairly the financial position as of June 30, 2009 and December 31, 2008, the results of operations for the three and six months ended June 30, 2009 and 2008, and cash flows and changes in equity for the six months ended June 30, 2009 and 2008. The results of operations for the three and six months, and cash flows and changes in equity for the six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year.

2. Summary of Significant Accounting Policies

Postretirement Benefits

TDS sponsors two contributory defined benefit postretirement plans that cover most employees of TDS Corporate, TDS Telecom and the subsidiaries of TDS Telecom. One plan provides medical benefits and the other plan provides life insurance benefits.

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Net periodic benefit costs for the defined benefit postretirement plans include the following components:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|--------|------------------------------|---------|
| | 2009 | 2008 | 2009 | 2008 |
| | (Dollars in thousands) | | | |
| Service cost | \$ 535 | \$ 499 | \$ 1,070 | \$ 998 |
| Interest on accumulated benefit obligation | 890 | 863 | 1,779 | 1,726 |
| Expected return on plan assets | (643) | (948) | (1,328) | (1,896) |
| Amortization of: | | | | |
| Prior service cost | (200) | (207) | (400) | (414) |
| Net loss | 451 | 242 | 903 | 484 |
| Net postretirement cost | \$ 1,033 | \$ 449 | \$ 2,024 | \$ 898 |

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TDS contributed \$2.9 million to the postretirement plans during the six months ended June 30, 2009.

Amounts Collected from Customers and Remitted to Governmental Authorities

If the tax is assessed upon the customer and TDS merely acts as an agent in collecting the tax on behalf of the governmental authority imposing such tax, the amounts collected from customers and remitted to governmental authorities are recorded net in Accrued taxes in the Consolidated Balance Sheet. If the tax is assessed upon TDS, the amounts collected from customers as recovery of the tax are recorded in Operating revenues and the amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded in Operating revenues that are billed to customers and remitted to governmental authorities totaled \$31.0 million and \$60.2 million for the three and six months ended June 30, 2009, respectively, and \$40.4 million and \$77.2 million for the three and six months ended June 30, 2008, respectively.

Implementation of SFAS No. 141(R)

Effective January 1, 2009, TDS adopted the provisions of FASB Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* a replacement of FASB Statement No. 141 (SFAS 141(R)), which replaces SFAS No. 141, *Business Combinations* (SFAS 141). Although SFAS 141(R) retains the underlying concept of SFAS 141 in that all business combinations are still required to be accounted for at fair value in accordance with the acquisition method, SFAS 141(R) requires TDS to revise its application of the acquisition method in a number of significant aspects, such as requiring the expensing of transaction costs and requiring the acquirer to recognize 100% of the acquiree's assets and liabilities, rather than a proportional share, for acquisitions of less than 100% of a business. In addition, SFAS 141(R) eliminates the step acquisition model and provides that all business combinations, whether full, partial or step acquisitions, will result in all assets and liabilities of an acquired business being recorded at their fair values at the acquisition date.

In April 2009, the FASB issued FASB Staff Position FAS 141(R)-1, *Accounting for Assets and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP FAS 141(R)-1), which amends the initial and subsequent measurement guidance and disclosure requirements in SFAS 141(R) for assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 is effective on a prospective basis for all business combinations for which the acquisition date is on or after January 1, 2009. TDS did not have any business combinations accounted for under SFAS 141(R) during the six months ended June 30, 2009.

Implementation of SFAS No. 160

See Note 3 Noncontrolling Interests for information related to TDS' adoption of SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51 (SFAS 160).

Recent Accounting Pronouncements

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In December 2008, the FASB issued FASB Staff Position FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 132(R)-1). FSP FAS 132(R)-1 provides guidance on disclosing information about assets held in a defined benefit pension or other postretirement plan. The guidance addresses disclosures relating to (a) categories of plan assets, (b) concentrations of risk arising within or across categories of plan assets, and (c) fair value measurements of plan assets. FSP FAS 132(R)-1 is effective for TDS on December 31, 2009 and will impact TDS' financial statement year-end disclosures related to its defined benefit postretirement plans.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167). SFAS 167 changes how TDS will determine when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. TDS has several variable interest entities within the scope of SFAS 167 (see Note 6 - Variable Interest Entities). SFAS 167 is effective for TDS on January 1, 2010. TDS is currently reviewing the requirements of SFAS 167 and has not yet determined the impact of adoption, if any, on its financial position or results of operations.

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3. Noncontrolling Interests

Implementation of SFAS No. 160

Effective January 1, 2009, TDS adopted the provisions of SFAS 160.

Pursuant to SFAS 160, the following provisions were applied retrospectively to all periods presented in the financial statements:

- TDS reclassified noncontrolling interests, formerly known as minority interests, from a separate caption between liabilities and stockholders' equity (mezzanine section) to a component of equity, with the exception of noncontrolling interests with redemption features, which require mezzanine section presentation in accordance with Emerging Issues Task Force Topic No. D-98, *Classification and Measurement of Redeemable Securities*. Previously, minority interests generally were reported in the balance sheet in the mezzanine section.
- Consolidated net income and comprehensive income include amounts attributable to both TDS and the noncontrolling interests. Previously, net income attributable to the noncontrolling interests was reported as a deduction in arriving at consolidated net income. This presentation change does not impact the calculation of basic or diluted earnings per share, which continue to be calculated based on Net income attributable to TDS.
- Shares of TDS held by its subsidiary are reflected as treasury shares in the consolidated financial statements. Previously, these shares were not reflected as issued shares and treasury shares in the consolidated financial statements. As a result, 484,012 Common Shares and 484,012 Special Common Shares were added to both Common and Special Common Shares issued and Treasury Shares in the Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008.

Pursuant to SFAS 160, the following provisions were applied prospectively effective January 1, 2009:

- SFAS 160 provides that all earnings and losses of a subsidiary should be attributed to the parent and the noncontrolling interest, even if the losses attributable to the noncontrolling interest result in a deficit noncontrolling interest balance. Previously, any losses exceeding the noncontrolling interest's investment in the subsidiary were attributed to the parent. This change did not have a significant impact on TDS financial statements for the six months ended June 30, 2009.

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- SFAS 160 establishes that once control of a subsidiary is obtained, changes in ownership interests in that subsidiary that do not result in a loss of control shall be accounted for as equity transactions. Previously, decreases in ownership interest in a subsidiary were accounted for as equity transactions, while increases in ownership interests in a subsidiary were accounted for as step acquisitions under the provisions of SFAS 141. Therefore, U.S. Cellular's repurchases of U.S. Cellular Common Shares during the six months ended June 30, 2009 were accounted for as equity transactions in TDS' financial statements, whereby the difference between the fair value of the consideration paid and the related carrying value of the noncontrolling interests was recorded as Capital in excess of par value in TDS' Consolidated Balance Sheet. Previously, these transactions had been recorded as step acquisitions in TDS' financial statements. The following schedule discloses the effects of net income and changes in TDS' ownership interest in U.S. Cellular on TDS' equity for the six months ended June 30, 2009 and 2008:

| | Six Months Ended June 30, | |
|---|------------------------------|------------|
| | 2009 | 2008 (1) |
| | (Dollars in thousands) | |
| Net income attributable to TDS | \$ 141,739 | \$ 161,244 |
| Transfer (to) from the noncontrolling interests | | |
| Change in TDS' Capital in excess of par value from U.S. Cellular's issuance of U.S. Cellular shares | (3,277) | (7,800) |
| Change in TDS' Capital in excess of par value from U.S. Cellular's repurchase of U.S. Cellular shares | (405) | |
| Net transfers (to) from noncontrolling interests | (3,682) | (7,800) |
| Change from net income attributable to TDS and transfers (to) from noncontrolling interests | \$ 138,057 | \$ 153,444 |

(1) During the six months ended June 30, 2008, U.S. Cellular repurchased U.S. Cellular Common Shares and also purchased noncontrolling interests in a consolidated subsidiary. TDS accounted for these transactions as step acquisitions under the provisions of SFAS 141. The amounts recorded in these transactions are reflected in the changes in the balances of Licenses, Goodwill and Customer lists.

Mandatorily Redeemable Noncontrolling Interests in Subsidiaries

Under SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*, certain noncontrolling interests in consolidated entities with finite lives may meet the definition of a mandatorily redeemable financial instrument. TDS' consolidated financial statements include certain noncontrolling interests that meet the definition of mandatorily redeemable financial instruments. These mandatorily redeemable noncontrolling interests represent interests held by third parties in consolidated partnerships and limited liability companies (LLCs), where the terms of the underlying partnership or LLC agreement provide for a defined termination date at which time the assets of the subsidiary are to be sold, the liabilities are to be extinguished and the remaining net proceeds are to be distributed to the noncontrolling interest holders and TDS in accordance with the respective partnership and LLC agreements. The termination dates of TDS' mandatorily redeemable noncontrolling interests range from 2085 to 2094.

The settlement value of TDS' mandatorily redeemable noncontrolling interests is estimated to be \$133.8 million at June 30, 2009. This amount represents the estimate of cash that would be due and payable to settle these noncontrolling interests assuming an orderly liquidation of the finite-lived consolidated partnerships and LLCs on June 30, 2009, net of estimated liquidation costs. This amount is being disclosed pursuant to the requirements of FSP No. FAS 150-3, *Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under SFAS 150*. TDS has no current plans or intentions to liquidate any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the mandatorily redeemable noncontrolling interests in finite-lived consolidated partnerships and LLCs at June 30, 2009 is \$47.9 million, and is

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included in Noncontrolling interests in the Consolidated Balance Sheet. The excess of the aggregate settlement value over the aggregate carrying value of the mandatorily redeemable noncontrolling interests of \$85.9 million is due primarily to the unrecognized appreciation of the noncontrolling interest holders' share of the underlying net assets in the consolidated partnerships and LLCs. Neither the noncontrolling interest holders' share, nor TDS' share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements. The estimate of settlement value was based on certain factors and assumptions which are subjective in nature. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount.

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SFAS No. 157, *Fair Value Measurements*, (SFAS 157) defines fair value, establishes a framework for measuring fair value in the application of GAAP, and expands disclosures about fair value measurements. SFAS 157 does not expand the use of fair value measurements in financial statements, but standardizes its definition and application in GAAP. SFAS 157 provides that fair value is a market-based measurement. This pronouncement establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. Further, SFAS 157 specifies that fair value measurements should consider adjustments for risk, such as the risk inherent in a valuation technique or its input. For assets and liabilities measured at fair value on a recurring basis, SFAS 157 expands the required disclosures concerning the inputs used to measure fair value.

As of June 30, 2009 and December 31, 2008, TDS did not have any financial assets or liabilities that were required to be recorded at fair value on a recurring basis in its Consolidated Balance Sheet. However, TDS has applied the provisions of SFAS 157 for purposes of computing the fair value of financial instruments for disclosure purposes. The fair value of financial instruments was as follows:

| | June 30, 2009 | | December 31, 2008 | |
|--------------------------------------|------------------------|------------|----------------------|------------|
| | Book Value | Fair Value | Book Value | Fair Value |
| | (Dollars in thousands) | | | |
| Cash and cash equivalents | \$ 664,757 | \$ 664,757 | \$ 777,309 | \$ 777,309 |
| Short-term investments | 136,495 | 136,495 | 27,705 | 27,705 |
| Current portion of long-term debt(1) | 17,053 | 16,824 | 14,618 | 14,715 |
| Long-term debt(1) | 1,614,194 | 1,358,467 | 1,617,534 | 1,035,554 |

(1) Excludes capital lease obligations

The fair value of Cash and cash equivalents and Short-term investments approximate their book value due to the short-term nature of these financial instruments. The fair value of TDS' Current portion of long-term debt, excluding capital lease obligations, was estimated using a discounted cash flow analysis. The fair value of Long-term debt, excluding capital lease obligations, was estimated using market prices for TDS' 7.6% Series A notes and 6.625% senior notes, U.S. Cellular's 7.5% and 8.75% senior notes, and discounted cash flow analysis for remaining debt.

As of June 30, 2009, TDS did not have any nonfinancial assets or liabilities that required the application of SFAS 157 for purposes of reporting such amounts in its Consolidated Balance Sheet.

5. Income Taxes

TDS' overall effective tax rate on Income before income taxes for the three and six months ended June 30, 2009 was 36.9% and 33.7%, respectively, and for the three and six months ended June 30, 2008 was 33.4% and 34.3%.

- The effective tax rate for the six months ended June 30, 2009 was lower than the rate for the three months ended June 30, 2009, primarily due to a state tax benefit resulting from a state tax law change. A tax benefit associated with the state tax law change was recognized as a discrete item in the three months ended March 31, 2009. This benefit, along with other minor discrete benefits in the period, decreased income tax expense for the three months ended March 31, 2009 and the six months ended June 30, 2009 by \$9.9 million and \$10.8 million, respectively; absent these benefits, the effective tax rate for the three and six month periods ended June 30, 2009 would have been 37.6% for both periods. The state tax law change is not expected to provide any incremental benefit in future periods.

- The effective tax rate for the three and six months ended June 30, 2008 was impacted by the disposition of Deutsche Telekom marketable equity securities and settlement of the related variable prepaid forward contracts during these periods. See Note 10 Marketable Equity Securities and Variable Prepaid Forward Contracts for additional details on these transactions. The tax benefit associated with the Deutsche Telekom transactions and other discrete benefits in the three and six months ended June 30, 2008 was \$4.6 million and \$11.6 million respectively; absent these benefits, the effective tax rate for the three and six months ended June 30, 2008 would have been 37.0% and 38.1%, respectively.

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In 2008, upon completion of the audit of the TDS consolidated group's federal income tax returns for the years 2002 through 2005, the Internal Revenue Service (IRS) issued an assessment of income tax. TDS protested the assessment and it is under appeal. Pursuant to a provision of the Internal Revenue Code, TDS made a \$38 million deposit with the IRS in order to eliminate any potential interest expense subsequent to the deposit. This deposit is included in Other current assets in TDS Consolidated Balance Sheet at June 30, 2009.

6. Variable Interest Entities

From time to time, the Federal Communications Commission (FCC) conducts auctions through which additional spectrum is made available for the provision of wireless services. U.S. Cellular, TDS subsidiary, participated in spectrum auctions indirectly through its limited partnership interests in Aquinas Wireless L.P. (Aquinas Wireless), King Street Wireless L.P. (King Street Wireless), Barat Wireless L.P. (Barat Wireless) and Carroll Wireless L.P. (Carroll Wireless), collectively, the limited partnerships. Each entity qualified as a designated entity and thereby was eligible for bid credits with respect to licenses purchased in accordance with the rules defined by the FCC for each auction. In most cases, the bidding credits resulted in a 25% discount from the gross winning bid. Some licenses were closed licenses, for which no credit was received, but bidding was restricted to bidders qualifying as entrepreneurs, which are small businesses that have a limited amount of assets and revenues.

A summary of the auctions in which each entity participated and the auction results for each of these entities are shown in the table below.

| | FCC Auction | Auction End Date | Date Applications Granted by FCC | Number of Licenses Won |
|----------------------|----------------|--------------------|-------------------------------------|---------------------------|
| Aquinas Wireless | 78 | August 20, 2008 | (1) | 5(2) |
| King Street Wireless | 73 | March 20, 2008 | (1) | 152(2) |
| Barat Wireless | 66 | September 18, 2006 | April 30, 2007 | 17 |
| Carroll Wireless | 58 | February 15, 2005 | January 6, 2006 | 16 |

(1) As of June 30, 2009, the FCC had not granted licenses to Aquinas Wireless and King Street Wireless for Auctions 78 and 73, respectively.

(2) Provisionally won.

Consolidated Variable Interest Entities

As of June 30, 2009, TDS consolidates the following variable interest entities (VIEs):

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

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

FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51* (FIN 46(R)), establishes certain criteria for consolidation when voting control is not present. Specifically, for a variable interest entity, as such term is defined by FIN 46(R), an entity, referred to as the primary beneficiary, that absorbs a majority of the variable interest entity's expected gains or losses is required to consolidate such a variable interest entity. TDS holds a variable interest in the entities listed above due to capital contributions and/or advances it has provided to these entities. Given the significance of these contributions and/or advances in relation to the equity investment at risk, TDS was deemed to be the primary beneficiary of these VIEs. Accordingly, these VIEs are consolidated pursuant to FIN 46(R) because TDS anticipates benefiting from or absorbing a majority of these VIEs' expected gains or losses.

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Following is a summary of the capital contributions and advances made to each entity by TDS as of June 30, 2009 (dollars in thousands). The amounts in the table below exclude funds provided to these entities solely from the shareholder of the general partner.

| | | |
|---|----|---------|
| Aquinas Wireless | \$ | 2,132 |
| King Street Wireless & King Street Wireless, Inc. | | 300,604 |
| Barat Wireless & Barat Wireless, Inc. | | 127,485 |
| Carroll Wireless & Carroll PCS, Inc. | | 130,094 |
| | \$ | 560,315 |

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

| | June 30, 2009 | December 31, 2008 |
|---|------------------------|----------------------|
| | (Dollars in thousands) | |
| Assets | | |
| Cash | \$ 361 | \$ 684 |
| Other current assets | 367 | 63 |
| Licenses | 487,962 | 487,962 |
| Total assets | \$ 488,690 | \$ 488,709 |
| Liabilities | | |
| Customer deposits and deferred revenues | 110 | 63 |
| Total liabilities | \$ 110 | \$ 63 |

Other Related Matters

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

The general partner of each of these VIEs has the right to manage and operate the limited partnerships; however, the general partner needs consent of the limited partner, a subsidiary of U.S. Cellular, in certain limited circumstances, such as to make certain large expenditures, admit other partners, or liquidate the limited partnerships.

See Note 13 - Commitments and Contingencies for additional information related to the participation of Carroll Wireless, Barat Wireless and King Street Wireless in Auction 58, Auction 66 and Auction 73, respectively.

These VIEs are in the process of developing long-term business and financing plans. These entities were formed to participate in FCC auctions of wireless spectrum and to fund, establish and provide wireless service with respect to any FCC licenses won in the auctions. As such, these

entities have risks similar to those described in the Risk Factors in TDS Form 10-K for the year ended December 31, 2008.

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|-----------|------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| | (Dollars and shares in thousands, except per share amounts) | | | |
| Basic earnings per share attributable to TDS shareholders | | | | |
| Net Income attributable to TDS | \$ 69,731 | \$ 87,757 | \$ 141,739 | \$ 161,244 |
| Preferred dividend requirement | (13) | (13) | (26) | (26) |
| Net income attributable to common shareholders of TDS used in basic earnings per share | \$ 69,718 | \$ 87,744 | \$ 141,713 | \$ 161,218 |
| Diluted earnings per share attributable to TDS shareholders | | | | |
| Net income attributable to common shareholders of TDS used in basic earnings per share | \$ 69,718 | \$ 87,744 | \$ 141,713 | \$ 161,218 |
| Noncontrolling income adjustment (1) | (147) | (200) | (343) | (516) |
| Preferred dividend adjustment (2) | 12 | 12 | 25 | 25 |
| Net income attributable to common shareholders of TDS used in diluted earnings per share | \$ 69,583 | \$ 87,556 | \$ 141,395 | \$ 160,727 |
| Weighted average number of shares | | | | |
| Common Shares | 51,697 | 53,219 | 51,695 | 53,213 |
| Special Common Shares | 52,574 | 56,601 | 53,326 | 57,261 |
| Series A Common Shares | 6,470 | 6,447 | 6,465 | 6,445 |
| Weighted average number of shares used in basic earnings per share | 110,741 | 116,267 | 111,486 | 116,919 |
| Effects of dilutive securities: | | | | |
| Stock options (3) | 50 | 400 | 50 | 442 |
| Restricted stock units (4) | 131 | 104 | 113 | 96 |
| Preferred shares (5) | 49 | 43 | 49 | 43 |
| Weighted average number of shares used in diluted earnings per share | 110,971 | 116,814 | 111,698 | 117,500 |
| Basic earnings per share attributable to TDS shareholders | \$ 0.63 | \$ 0.75 | \$ 1.27 | \$ 1.38 |
| Diluted earnings per share attributable to TDS shareholders | \$ 0.63 | \$ 0.75 | \$ 1.27 | \$ 1.37 |

- (1) The noncontrolling income adjustment reflects the additional noncontrolling share of U.S. Cellular's income computed as if all of U.S. Cellular's issuable securities were outstanding.
- (2) The preferred dividend adjustment reflects the dividend reduction related to preferred securities that were dilutive, and therefore treated as if converted for shares.
- (3) Stock options exercisable into 821,254 Common Shares and 4,039,314 Special Common Shares for the three months ended June 30, 2009, and 336,563 Common Shares and 1,411,001 Special Common Shares for the three months ended June 30, 2008, were not included in computing Diluted Earnings per Share because their effects were antidilutive. Stock options exercisable into 838,002 Common Shares and 3,746,087 Special Common Shares for the six months ended June 30, 2009, and 335,773 Common Shares and 1,412,219 Special Common Shares for the six months ended June 30, 2008, were not included in computing Diluted Earnings per Share because their effects were antidilutive.

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(4) Restricted stock units issuable upon vesting into 86,712 and 43,645 Special Common Shares for the three and six months ended June 30, 2009, respectively, were not included in Diluted Earnings per Share because their effects were antidilutive. There were 233 antidilutive restricted stock units for the six months ended June 30, 2008.

(5) For the class of preferred shares that is convertible for Common Shares, there were no antidilutive preferred shares for the three- and six-month periods ended June 30, 2009 and 2008.

8. Acquisitions, Divestitures and Exchanges

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

Significant transactions pending as of June 30, 2009

The FCC auction of spectrum in the PCS and AWS-1 bands, designated by the FCC as Auction 78, closed on August 20, 2008. U.S. Cellular participated in Auction 78 indirectly through its interest in Aquinas Wireless. Aquinas Wireless paid \$2.1 million to the FCC in 2008 for five licenses for which it was the provisional winning bidder in the auction.

U.S. Cellular also participated in the FCC auction of spectrum in the 700 megahertz band, designated as Auction 73, which closed on March 20, 2008. U.S. Cellular participated in Auction 73 indirectly through its interest in King Street Wireless. King Street Wireless paid \$300.5 million to the FCC in 2008 for 152 licenses for which it was the provisional winning bidder in the auction.

There is no prescribed timeframe for the FCC to review the qualifications of the various winning bidders and grant licenses related to Auctions 78 and 73. As of June 30, 2009, the FCC had not granted the licenses to Aquinas Wireless or King Street Wireless. See Note 6 Variable Interest Entities, for further details on Aquinas Wireless and King Street Wireless and the licenses provisionally won in Auctions 78 and 73.

9. Licenses and Goodwill

Changes in TDS licenses and goodwill for the six months ended June 30, 2009 and 2008 are presented below.

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| | Cellular(1) | TDS Telecom (Dollars in thousands) | Total |
|--|--------------|---------------------------------------|--------------|
| <u>Licenses</u> | | | |
| Balance December 31, 2008 | \$ 1,438,640 | \$ 2,800 | \$ 1,441,440 |
| Acquisitions | 12,250 | | 12,250 |
| Other | (164) | | (164) |
| Balance June 30, 2009 | \$ 1,450,726 | \$ 2,800 | \$ 1,453,526 |
| Balance December 31, 2007 | \$ 1,513,829 | \$ 2,800 | \$ 1,516,629 |
| Acquisitions | 310,282 | | 310,282 |
| U.S. Cellular Common Share repurchases (2) | 2,103 | | 2,103 |
| Balance June 30, 2008 | \$ 1,826,214 | \$ 2,800 | \$ 1,829,014 |

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| | U.S. Cellular(1) | TDS Telecom (Dollars in thousands) | Non- reportable segment(3) | Total |
|--|---------------------|---------------------------------------|----------------------------------|------------|
| Goodwill | | | | |
| Balance December 31, 2008 | \$ 282,864 | \$ 420,413 | \$ 3,802 | \$ 707,079 |
| Other | 458 | 303 | | 761 |
| Balance June 30, 2009 | \$ 283,322 | \$ 420,716 | \$ 3,802 | \$ 707,840 |
| Balance December 31, 2007 | \$ 276,416 | \$ 398,911 | \$ 3,802 | \$ 679,129 |
| Acquisitions | 2,602 | 11,317 | | 13,919 |
| U.S. Cellular Common Share repurchases(2) | 2,648 | | | 2,648 |
| Balance June 30, 2008 | \$ 281,666 | \$ 410,228 | \$ 3,802 | \$ 695,696 |

(1) U.S. Cellular's balances include licenses and goodwill allocated from TDS as a result of step acquisitions prior to the adoption of SFAS 160 on January 1, 2009.

(2) Prior to adoption of SFAS 160, TDS accounted for U.S. Cellular's share repurchases as step acquisitions, allocating a portion of the share repurchase value to TDS licenses and goodwill. See Note 14 - TDS and U.S. Cellular Share Repurchases for a discussion of U.S. Cellular's repurchases of its Common Shares. Effective January 1, 2009, TDS accounts for U.S. Cellular share repurchases as equity transactions, in accordance with SFAS 160.

(3) Non-reportable segment consists of goodwill related to Suttle-Straus.

Licenses and goodwill must be reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. TDS has historically performed the required annual impairment assessment of its licenses and goodwill in the second quarter of the year.

As a result of the deterioration in the credit and financial markets and the decline of the overall economy in the fourth quarter of 2008, TDS performed an interim impairment assessment of licenses and goodwill as of December 31, 2008. The assessment resulted in an impairment loss of \$414.4 million on licenses, which was recognized in December 2008, and no impairment of goodwill. TDS assessed whether an interim impairment assessment was also required at June 30, 2009, and concluded that such an impairment assessment was not required.

As noted above, since the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), TDS' annual impairment review of goodwill and indefinite-lived intangible assets has been completed in the second quarter of each year. Effective April 1, 2009, TDS adopted a new accounting policy whereby its annual impairment review of goodwill and indefinite-lived intangible assets will be performed as of November 1 instead of the second quarter of each year. As indicated above, an impairment analysis of goodwill and indefinite-lived intangible assets was last completed as of December 31, 2008. The change in the annual goodwill and indefinite-lived intangible asset impairment testing date was made to better align the annual impairment test with the timing of TDS' annual strategic planning process, which allows for a better estimate of the future cash flows used in discounted cash flow models to test for impairment. This change in accounting policy does not delay, accelerate or avoid an impairment charge. Accordingly, TDS management believes that this accounting change is preferable under the circumstances.

10. Marketable Equity Securities and Variable Prepaid Forward Contracts

As of June 30, 2009 and December 31, 2008, TDS did not own either marketable equity securities or variable prepaid forward contracts.

In 2002 and 2003, TDS entered into variable prepaid forward contracts (forward contracts) related to the Deutsche Telekom Ordinary Shares it held. The economic hedge risk management objective of the forward contracts was to hedge the value of the marketable equity securities from losses due to decreases in the market prices of the securities while retaining a share of gains from increases in the market prices of such securities. The downside risk was hedged at or above the accounting cost basis of the securities. The principal amount of the forward contracts was accounted for as a loan. The forward contracts contained embedded collars that were bifurcated and accounted for as derivatives in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

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TDS adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159) as of January 1, 2008 for its investment in Deutsche Telekom Ordinary Shares, and also for the collar portions of the forward contracts related to such Deutsche Telekom Ordinary Shares. SFAS 159 permits companies to elect to measure various financial instruments and certain other items at fair value. Pursuant to the provisions of SFAS 159, at the date the option is elected, entities are required to record a cumulative-effect adjustment to beginning retained earnings. In subsequent periods, for those instruments for which the fair value option is elected, unrealized gains and losses are recorded in the Statement of Operations. For the three and six months ended June 30, 2008 TDS recorded a net gain of \$4.1 million and \$0.6 million, respectively, in Gain (loss) on investments and financial instruments on the Consolidated Statement of Operations related to the changes in the fair value of the Deutsche Telekom Ordinary Shares and the collar portion of the forward contracts related to such shares.

During the six months ended June 30, 2008, the forward contracts related to 85,969,689 Deutsche Telekom Ordinary Shares were settled through a combination of delivery of 73,462,167 Deutsche Telekom Ordinary Shares relating to the forward contracts and cash payments. TDS sold the remaining 12,507,522 Deutsche Telekom Ordinary Shares and realized cash proceeds of \$226.6 million from the sale. This amount was offset by \$17.4 million and \$47.4 million of cash payments paid to settle the collar (derivative liability) and debt portions of certain variable prepaid forward contracts, respectively, for which cash was delivered upon settlement.

11. Investments in Unconsolidated Entities

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

Equity in earnings of unconsolidated entities totaled \$18.4 million and \$22.9 million in the three months ended June 30, 2009 and 2008, respectively, and \$43.7 million and \$44.4 million in the six month-periods then ended, respectively. Of those amounts, TDS investment in the Los Angeles SMSA Limited Partnership (LA Partnership) contributed \$17.1 million and \$18.2 million in the three months ended June 30, 2009 and 2008, respectively, and \$34.0 million and \$34.0 million in the six months ended June 30, 2009 and 2008, respectively. TDS held a 5.5% ownership interest in the LA Partnership during these periods.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------|--------------------------------|--------------|------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| | (Dollars in thousands) | | | |
| Revenues | \$ 1,200,000 | \$ 1,174,000 | \$ 2,374,000 | \$ 2,356,000 |
| Operating expenses | 837,000 | 816,000 | 1,652,000 | 1,639,000 |
| Operating income | 363,000 | 358,000 | 722,000 | 717,000 |
| Other income | 13,000 | 5,000 | 20,000 | 11,000 |
| Net income | \$ 376,000 | \$ 363,000 | \$ 742,000 | \$ 728,000 |

12. Notes Payable

Prior to June 30, 2009, TDS had a \$600 million revolving credit facility available for general corporate purposes. On June 30, 2009, TDS entered into a new \$400 million revolving credit agreement with certain lenders and other parties. As a result, TDS' \$600 million revolving credit agreement, which was due to expire in December 2009, was terminated on June 30, 2009 as a condition of entering into the new agreement. The new revolving credit agreement provides TDS with a \$400 million senior revolving credit facility for working capital, non-hostile acquisitions and other corporate purposes and to refinance any existing debt of TDS. Amounts under the new revolving credit facility may be borrowed, repaid and reborrowed from time to time from and after June 30, 2009 until maturity in June 2012.

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At June 30, 2009, TDS had no outstanding borrowings and \$3.4 million of outstanding letters of credit, leaving \$396.6 million available for use. Borrowings under TDS' new revolving credit facility bear interest at the London InterBank Offered Rate (LIBOR) (or, at TDS' option, an alternate Base Rate as defined in the new revolving credit agreement) plus a contractual spread based on TDS' credit rating. TDS may select borrowing periods of either one, two, three or six months (or other period of twelve months or less requested by TDS if approved by the lenders). At June 30, 2009, the one-month LIBOR was 0.31% and the contractual spread was 300 basis points. If TDS provides less than three business days notice of intent to borrow, interest on borrowings is at the Base Rate plus the contractual spread (the Base Rate was 3.25% at June 30, 2009).

Prior to June 30, 2009, U.S. Cellular had a \$700 million revolving credit facility available for general corporate purposes. On June 30, 2009, U.S. Cellular entered into a new \$300 million revolving credit agreement with certain lenders and other parties. As a result, U.S. Cellular's \$700 million revolving credit agreement, which was due to expire in December 2009, was terminated on June 30, 2009 as a condition of entering into the new agreement. The new revolving credit agreement provides U.S. Cellular with a \$300 million senior revolving credit facility for working capital, non-hostile acquisitions and other corporate purposes and to refinance any existing debt of U.S. Cellular. Amounts under the new revolving credit facility may be borrowed, repaid and reborrowed from time to time from and after June 30, 2009 until maturity in June 2012.

At June 30, 2009, U.S. Cellular had no outstanding borrowings and \$0.3 million of outstanding letters of credit, leaving \$299.7 million available for use. Borrowings under U.S. Cellular's new revolving credit facility bear interest at the LIBOR (or, at U.S. Cellular's option, an alternate Base Rate as defined in the new revolving credit agreement) plus a contractual spread based on U.S. Cellular's credit rating. U.S. Cellular may select borrowing periods of either one, two, three or six months (or other period of twelve months or less requested by U.S. Cellular if approved by the lenders). At June 30, 2009, the one-month LIBOR was 0.31% and the contractual spread was 300 basis points. If U.S. Cellular provides less than three business days notice of intent to borrow, interest on borrowings is the Base Rate plus the contractual spread (the Base Rate was 3.25% at June 30, 2009).

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

The new revolving credit facilities have commitment fees based on the senior unsecured debt ratings assigned to TDS and U.S. Cellular by certain rating agencies. The range of the commitment fees is 0.25% to 0.75% of the unused portion of the new revolving credit facilities.

TDS incurred costs of \$10.0 million in conjunction with obtaining the new credit facilities, and such costs will be amortized on a straight line basis over the three year term of the facilities.

The maturity date of any borrowings under the TDS and U.S. Cellular new revolving credit facilities would accelerate in the event of a change in control.

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The continued availability of the new revolving credit facilities requires TDS and U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing. TDS and U.S. Cellular believe they were in compliance as of June 30, 2009 with all covenants and other requirements set forth in the new revolving credit facilities.

In connection with U.S. Cellular's new revolving credit facility, TDS and U.S. Cellular entered into a subordination agreement dated June 30, 2009 together with the administrative agent for the lenders under U.S. Cellular's new revolving credit agreement. Pursuant to this subordination agreement, (a) any consolidated funded indebtedness from U.S. Cellular to TDS will be unsecured and (b) any (i) consolidated funded indebtedness (other than refinancing indebtedness as defined in the subordination agreement) in excess of \$105,000,000, and (ii) refinancing indebtedness in excess of \$250,000,000, will be subordinated and made junior in right of payment to the prior payment in full of obligations to the lenders under U.S. Cellular's new revolving credit agreement. The aggregate outstanding principal amount of consolidated funded indebtedness of U.S. Cellular that was subordinated pursuant to this subordination agreement was zero as of June 30, 2009.

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13. Commitments and Contingencies

Indemnifications

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

Legal Proceedings

The United States Department of Justice (DOJ) has notified TDS and U.S. Cellular, a subsidiary of TDS, that each is a named defendant in a civil action brought by a private party in the U.S. District Court for the District of Columbia under the qui tam provisions of the federal False Claims Act. TDS and U.S. Cellular were advised that the complaint seeks return of approximately \$165 million of bid credits from certain FCC auctions and requests treble damages. The complaint remains under seal pending the DOJ 's consideration as to whether to intervene in the proceeding. The DOJ has not yet made any decision as to whether it will intervene. However, as a result of the complaint, the DOJ is investigating TDS ' and U.S. Cellular ' s participation in certain spectrum auctions conducted by the FCC between 2005 and 2008, through Carroll Wireless, L.P., Barat Wireless, L.P., and King Street Wireless, L.P. These limited partnerships were winning bidders in Auction 58, Auction 66 and Auction 73, respectively, and received a 25% bid credit in the applicable auction price under FCC rules. The DOJ is investigating whether these limited partnerships qualified for the 25% bid credit in auction price considering their arrangements with TDS and U.S. Cellular. TDS and U.S. Cellular are cooperating with the DOJ 's review. TDS and U.S. Cellular believe that U.S. Cellular ' s arrangements with these limited partnerships and the limited partnerships ' participation in the FCC auctions complied with applicable law and FCC rules and each of TDS and U.S. Cellular intends to vigorously defend itself against any claim that it violated applicable law or FCC rules. At this time, TDS cannot predict the outcome of this review or any proceeding. The FCC sent a letter to King Street Wireless, L.P. requesting that it submit to the FCC a written response to the allegations in the complaint. King Street Wireless, L.P. made this submission as requested by the FCC.

TDS is involved or may be involved from time to time in legal proceedings before the FCC, other regulatory authorities, and/or various state and federal courts. If TDS believes that a loss arising from such legal proceedings is probable and can be reasonably estimated, an amount is accrued in the financial statements for the estimated loss. If only a range of loss can be determined, the best estimate within that range is accrued; if none of the estimates within that range is better than another, the low end of the range is accrued. The assessment of the expected outcomes of legal proceedings is a highly subjective process that requires judgments about future events. The legal proceedings are reviewed at least quarterly to determine the adequacy of accruals and related financial statement disclosures. The ultimate outcomes of legal proceedings could differ materially from amounts accrued in the financial statements.

14. TDS and U.S. Cellular Share Repurchases

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On March 2, 2007, the TDS Board of Directors authorized the repurchase of up to \$250 million of TDS Special Common Shares from time to time through open market purchases, block transactions, private purchases or otherwise, depending on market conditions. TDS completed this stock repurchase program in November 2008.

On November 3, 2008, the TDS Board of Directors authorized a \$250 million stock repurchase program for both TDS Common and Special Common Shares from time to time through open market purchases, block transactions, private purchases or otherwise, depending on market conditions. This authorization will expire on November 3, 2011.

During the six months ended June 30, 2009, TDS repurchased 3,188,293 Special Common Shares for \$86.0 million, or an average of \$26.98 per Special Common Share. Of this amount, \$84.6 million was paid in the six months ended June 30, 2009, and \$1.4 million was paid in July 2009. In addition, in January 2009 TDS paid \$2.0 million for the fourth quarter 2008 share repurchases.

During the six months ended June 30, 2008, TDS repurchased 2,056,666 Special Common Shares for \$84.7 million, or \$41.17 per share. Of this amount, \$83.0 million was paid in the six months ended June 30, 2008, and \$1.7 million was paid in July 2008.

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TDS did not repurchase any Common Shares during the six months ended June 30, 2009 or the six months ended June 30, 2008.

As of June 30, 2009, TDS has purchased a total of \$162.3 million of TDS Common and Special Common Shares under the current authorization, and therefore could purchase up to \$87.7 million in future periods.

Prior to November 18, 2008, the Board of Directors of U.S. Cellular had authorized the repurchase of up to 1% of the outstanding U.S. Cellular Common Shares held by non-affiliates in each three-month period, primarily for use in employee benefit plans (the Limited Authorization). On November 18, 2008, the Board of Directors of U.S. Cellular amended the Limited Authorization to permit the repurchase of up to 5% of the outstanding U.S. Cellular Common Shares held by persons other than TDS affiliates in each twelve-month period. This authorization does not have an expiration date.

During the six months ended June 30, 2009, U.S. Cellular repurchased 507,000 Common Shares for \$19.3 million, or an average of \$38.13 per Common Share. During the six months ended June 30, 2008, U.S. Cellular repurchased 300,000 Common Shares for \$19.1 million, or an average of \$63.57 per Common Share. In addition, U.S. Cellular received \$4.6 million in cash during the six months ended June 30, 2008 as a final settlement payment of 2007 Common Share repurchases executed through accelerated share repurchase agreements with an investment banking firm. As of June 30, 2009, U.S. Cellular had repurchased the maximum number of Common Shares permitted to be repurchased for the twelve months then ended under the Limited Authorization.

TDS ownership percentage of U.S. Cellular increases upon such U.S. Cellular share repurchases. Prior to the adoption of SFAS 141(R) and SFAS 160 on January 1, 2009, TDS accounted for U.S. Cellular's purchases of U.S. Cellular Common Shares as step acquisitions using purchase accounting. See Note 9 Licenses and Goodwill for details on the amounts allocated to Licenses and Goodwill related to the repurchase of U.S. Cellular Common Shares for the six months ended June 30, 2008. Subsequent to the adoption of SFAS 141(R) and SFAS 160, TDS accounts for U.S. Cellular's purchases of U.S. Cellular Common Shares as equity transactions. See Note 2 Summary of Significant Accounting Policies for additional information on the adoption of SFAS 141(R) and Note 3 Noncontrolling Interests for additional information on the adoption of SFAS 160.

Table of Contents**15. Accumulated Other Comprehensive Income (Loss)**

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

| | Six Months Ended June 30, | | |
|--|------------------------------|----------|--------------|
| | 2009 | 2008 | |
| | (Dollars in thousands) | | |
| Marketable Equity Securities and Equity Method Investments | | | |
| Balance, beginning of period (prior to adoption of SFAS 159) | \$ | 608 | \$ 665,377 |
| Cumulative effect adjustment upon the adoption of SFAS 159(1) | | | (647,260) |
| Balance, beginning of period (after adoption of SFAS 159) | | 608 | 18,117 |
| Add (deduct): | | | |
| Unrealized gains of marketable equity securities | | | 302 |
| Deferred tax expense | | | (116) |
| | | | 186 |
| Unrealized gains/(losses) of equity method companies | | (501) | 221 |
| Noncontrolling share of unrealized gains | | | (8) |
| Net change in unrealized gains/losses | | (501) | 399 |
| Balance, end of period | \$ | 107 | \$ 18,516 |
| Derivative Instruments | | | |
| Balance, beginning of period (prior to adoption of SFAS 159) | \$ | | \$ (144,583) |
| Cumulative effect adjustment upon the adoption of SFAS 159(1) | | | 144,583 |
| Balance, beginning of period (after adoption of SFAS 159) | | | |
| Net change in derivative instruments | | | |
| Balance, end of period | \$ | | \$ |
| Retirement Plans | | | |
| Balance, beginning of period | \$ | (17,420) | \$ (9,018) |
| Add (deduct): | | | |
| Amounts included in net periodic benefit cost for the period | | | |
| Amortization of prior service cost | | (400) | (414) |
| Amortization of unrecognized net loss | | 903 | 484 |
| | | 503 | 70 |
| Deferred income tax benefit/(expense) | | 3,501 | (22) |
| Net change in retirement plans | | 4,004 | 48 |
| Balance, end of period | \$ | (13,416) | \$ (8,970) |
| Accumulated Other Comprehensive Income (Loss) | | | |
| Balance, beginning of period (prior to adoption of SFAS 159) | \$ | (16,812) | \$ 511,776 |
| Cumulative effect adjustment upon the adoption of SFAS 159(1) | | | (502,677) |
| Balance, beginning of period (after adoption of SFAS 159) | | (16,812) | 9,099 |
| Add (deduct): | | | |
| Net change in marketable equity securities and equity method investments | | (501) | 399 |
| Net change in retirement plans | | 4,004 | 48 |
| Net change included in comprehensive income (loss) | | 3,503 | 447 |
| Balance, end of period | \$ | (13,309) | \$ 9,546 |

(1) See Note 10 Marketable Equity Securities and Variable Prepaid Forward Contracts for additional details on the cumulative effect adjustment related to the adoption of SFAS 159.

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| | Six Months Ended June 30, | |
|---|------------------------------|------------|
| | 2009 | 2008 |
| (Dollars in thousands) | | |
| Comprehensive Income | | |
| Net income | \$ 183,933 | \$ 196,771 |
| Net change in accumulated other comprehensive income | 3,503 | 447 |
| Comprehensive income | 187,436 | 197,218 |
| Less: Comprehensive income attributable to the noncontrolling interests | (42,194) | (35,527) |
| Comprehensive income attributable to TDS | \$ 145,242 | \$ 161,691 |

16. Business Segment Information

Financial data for TDS business segments for the three- and six-month periods ended, or as of June 30, 2009 and 2008, is as follows. TDS Telecom's incumbent local exchange carriers are designated as ILEC in the table and its competitive local exchange carrier is designated as CLEC.

| Three Months Ended or as of June 30, 2009 | U.S. Cellular | TDS Telecom | | | Non- Reportable Segment(1) | Other Reconciling Items(2) | Total |
|---|------------------|-------------|-----------|-----------|----------------------------------|----------------------------------|-------|
| | | ILEC | CLEC | | | | |
| (Dollars in thousands) | | | | | | | |
| Operating revenues | \$ 1,042,550 | \$ 148,208 | \$ 50,093 | \$ 10,102 | \$ (8,476) | \$ 1,242,477 | |
| Cost of services and products | 350,861 | 48,406 | 26,348 | 7,918 | (2,414) | 431,119 | |
| Selling, general and administrative expense | 410,070 | 45,828 | 17,577 | 2,054 | (4,616) | 470,913 | |
| Operating income before certain non-cash items(3) | 281,619 | 53,974 | 6,168 | 130 | (1,446) | 340,445 | |
| Depreciation, amortization and accretion expense | 138,614 | 35,302 | 6,361 | 651 | 2,421 | 183,349 | |
| Loss on asset disposals, net | 2,086 | 283 | 119 | | 8 | 2,496 | |
| Operating income (loss) | 140,919 | 18,389 | (312) | (521) | (3,875) | 154,600 | |
| Total assets | 5,731,247 | 1,488,347 | 127,289 | 24,048 | 286,801 | 7,657,732 | |
| Capital expenditures | 91,161 | 26,189 | 5,729 | 55 | 2,451 | 125,585 | |

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| Three Months Ended or as of June 30, 2008 | U.S. Cellular | TDS Telecom | | Non- Reportable Segment(1) | Other Reconciling Items(2) | Total |
|--|------------------|-------------|-----------|----------------------------------|----------------------------------|--------------|
| | | ILEC | CLEC | | | |
| (Dollars in thousands) | | | | | | |
| Operating revenues | \$ 1,060,592 | \$ 153,199 | \$ 55,888 | \$ 12,990 | \$ (8,318) | \$ 1,274,351 |
| Cost of services and products | 372,797 | 46,873 | 28,828 | 10,278 | (1,980) | 456,796 |
| Selling, general and administrative expense | 418,416 | 41,416 | 17,457 | 2,365 | (6,306) | 473,348 |
| Operating income before certain non-cash items(3) | 269,379 | 64,910 | 9,603 | 347 | (32) | 344,207 |
| Depreciation, amortization and accretion expense | 145,258 | 33,502 | 5,569 | 733 | 2,964 | 188,026 |
| Gain (loss) on asset disposals, net | 6,219 | (25) | 244 | | | 6,438 |
| Operating income (loss) | 117,902 | 31,433 | 3,790 | (386) | (2,996) | 149,743 |
| Total assets | 5,832,552 | 1,291,432 | 142,944 | 26,049 | 988,509 | 8,281,486 |
| Capital expenditures | 137,810 | 22,800 | 4,711 | 102 | 1,173 | 166,596 |

| Six Months Ended or as of June 30, 2009 | U.S. Cellular | TDS Telecom | | Non- Reportable Segment(1) | Other Reconciling Items(2) | Total |
|--|------------------|-------------|------------|----------------------------------|----------------------------------|--------------|
| | | ILEC | CLEC | | | |
| (Dollars in thousands) | | | | | | |
| Operating revenues | \$ 2,095,314 | \$ 298,395 | \$ 101,282 | \$ 21,969 | \$ (17,837) | \$ 2,499,123 |
| Cost of services and products | 736,565 | 96,090 | 53,119 | 17,451 | (4,699) | 898,526 |
| Selling, general and administrative expense | 822,518 | 86,857 | 34,912 | 3,827 | (9,353) | 938,761 |
| Operating income before certain non-cash items(3) | 536,231 | 115,448 | 13,251 | 691 | (3,785) | 661,836 |
| Depreciation, amortization and accretion expense | 276,265 | 71,388 | 12,138 | 1,308 | 5,016 | 366,115 |
| (Gain) loss on asset disposals, net | 4,277 | 421 | 196 | (7) | 25 | 4,912 |
| Operating income (loss) | 255,689 | 43,639 | 917 | (610) | (8,826) | 290,809 |
| Total assets | 5,731,247 | 1,488,347 | 127,289 | 24,048 | 286,801 | 7,657,732 |
| Capital expenditures | 228,902 | 47,600 | 10,724 | 189 | 3,406 | 290,821 |

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| Six Months Ended or as of June 30, 2008 | U.S. Cellular | TDS Telecom | | Non- Reportable Segment(1) | Other Reconciling Items(2) | Total |
|--|------------------|-------------|------------|----------------------------------|----------------------------------|--------------|
| | | ILEC | CLEC | | | |
| | | | | (Dollars in thousands) | | |
| Operating revenues | \$ 2,098,448 | \$ 305,014 | \$ 112,017 | \$ 24,613 | \$ (16,640) | \$ 2,523,452 |
| Cost of services and products | 741,858 | 91,707 | 55,161 | 18,757 | (4,296) | 903,187 |
| Selling, general and administrative expense | 822,042 | 83,897 | 34,483 | 4,267 | (12,050) | 932,639 |
| Operating income before certain non-cash items(3) | 534,548 | 129,410 | 22,373 | 1,589 | (294) | 687,626 |
| Depreciation, amortization and accretion expense | 287,788 | 67,126 | 11,453 | 1,455 | 6,362 | 374,184 |
| (Gain) loss on asset disposals, net | 9,892 | (46) | 244 | | | 10,090 |
| Operating income (loss) | 236,868 | 62,330 | 10,676 | 134 | (6,656) | 303,352 |
| Total assets | 5,832,552 | 1,291,432 | 142,944 | 26,049 | 988,509 | 8,281,486 |
| Capital expenditures | 249,500 | 37,447 | 8,146 | 1,031 | 2,937 | 299,061 |

(1) Represents Suttle-Straus.

(2) Consists of the Corporate operations, intercompany eliminations and other corporate investments.

(3) The amount of Operating income before certain non-cash items is a non-GAAP financial measure. The non-cash items excluded from this subtotal are Depreciation, amortization and accretion, Loss on asset disposals, net (if any) and Loss on impairment of intangible assets (if any). This amount may also be commonly referred to by management as operating cash flow. TDS has presented operating cash flow because this financial measure, in combination with other financial measures, is an integral part of TDS internal reporting system utilized by management to assess and evaluate the performance of its business. Operating cash flow is also considered a significant performance measure. It is used by management as a measurement of its success in obtaining, retaining and servicing customers by reflecting its ability to generate subscriber revenue while providing a high level of customer service in a cost effective manner. The components of operating cash flow include the key revenue and expense items for which operating managers are responsible and upon which TDS evaluates its performance.

Other companies may define operating cash flow in a different manner or present other varying financial measures, and, accordingly, TDS presentation may not be comparable to other similarly titled measures of other companies.

Operating cash flow should not be construed as an alternative to operating income (loss), as determined in accordance with GAAP, as an alternative to cash flows from operating activities, as determined in accordance with GAAP, or as a measure of liquidity. TDS believes operating cash flow is useful to investors as a means to evaluate TDS operating performance prior to noncash depreciation and amortization expense, and certain other noncash charges. Although operating cash flow may be defined differently by other companies, TDS believes that operating cash flow provides some commonality of measurement in analyzing operating performance.

Table of Contents**17. Supplemental Cash Flow Disclosures**

The following represents cash flow information related to the issuance of Common Shares and Special Common Shares pursuant to stock-based compensation awards:

TDS:

| | Six Months Ended June 30, | |
|--|------------------------------|----------|
| | 2009 | 2008 |
| | (Dollars in thousands) | |
| Common Shares withheld(1) | | 11,028 |
| Special Common Shares withheld(1) | | 17,314 |
| Aggregate value of Common Shares withheld | \$ | \$ 559 |
| Aggregate value of Special Common Shares withheld | | 810 |
| Cash receipts upon exercise of stock options | \$ 743 | \$ 1,949 |
| Cash disbursements for payment of taxes (2) | | (455) |
| Net cash receipts (disbursements) from exercise of stock options and vesting of other stock awards | \$ 743 | \$ 1,494 |

U.S. Cellular:

| | Six Months Ended June 30, | |
|--|------------------------------|------------|
| | 2009 | 2008 |
| | (Dollars in thousands) | |
| Common Shares withheld(1) | 33,565 | 217,535 |
| Aggregate value of Common Shares withheld | \$ 1,213 | \$ 12,841 |
| Cash receipts upon exercise of stock options | \$ 808 | \$ 1,920 |
| Cash disbursements for payment of taxes(2) | (1,213) | (3,798) |
| Net cash receipts (disbursements) from exercise of stock options and vesting of other stock awards | \$ (405) | \$ (1,878) |

(1) Such shares were withheld to cover the exercise price of stock options, if applicable, and required tax withholdings.

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

TDS declared and paid dividends of \$23.8 million or \$0.2150 per share during the six months ended June 30, 2009. TDS declared and paid dividends of \$23.9 million or \$0.2050 per share in the six months ended June 30, 2008.

TDS holds certificates of deposit at December 31, 2008 and June 30, 2009 with original maturities of between 180 days and one year. In certain cases when these certificates of deposit mature, TDS will purchase new certificates of deposit with the proceeds due to TDS upon maturity (renewals). These renewals do not involve transfer of funds between TDS and financial institutions, and accordingly, TDS does not reflect cash inflows or outflows related to these certificate of deposit renewal transactions in the statement of cash flows.

18. Subsequent Events

TDS evaluated subsequent events from June 30, 2009 through the issuance date (August 6, 2009) of these financial statements. No significant subsequent events have occurred during this period that require adjustment to the June 30, 2009 financial statements or disclosure.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Telephone and Data Systems, Inc. (TDS) is a diversified telecommunications company providing high-quality telecommunications services in 36 states to approximately 6.2 million wireless customers and 1.1 million wireline equivalent access lines at June 30, 2009. TDS conducts substantially all of its wireless operations through its 81%-owned subsidiary, United States Cellular Corporation (U.S. Cellular®), and provides wireline services through its incumbent local exchange carrier (ILEC) and competitive local exchange carrier (CLEC) operations under its wholly owned subsidiary, TDS Telecommunications Corporation (TDS Telecom®). TDS conducts printing and distribution services through its 80%-owned subsidiary, Suttle-Straus, Inc. which represents a small portion of TDS operations.

The following discussion and analysis should be read in conjunction with TDS interim consolidated financial statements and footnotes included herein 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, 2008.

OVERVIEW

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

U.S. Cellular

U.S. Cellular provides wireless telecommunications services to approximately 6.2 million customers in five geographic market areas in 26 states. As of June 30, 2009, U.S. Cellular's average penetration rate in its consolidated operating markets, calculated by dividing U.S. Cellular's total customers by the total population of 46.3 million in such markets, was 13.3%. U.S. Cellular operates on a customer satisfaction strategy, meeting customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network. U.S. Cellular's business development strategy is to operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular believes that operating in contiguous market areas will continue to provide it with certain economies in its capital and operating costs. Financial and operating highlights in the first six months of 2009 included the following:

- Total customers were 6,155,000 at June 30, 2009, including 5,711,000 retail customers.
- Retail customer net additions were 4,000 in the first six months of 2009 (comprised of 63,000 net additions in the first quarter and 59,000 net defections in the second quarter) compared to 119,000 in 2008. The decrease year-over-year reflected both lower gross additions and higher churn rates, due to the weak economy and very competitive industry conditions including the increased impacts of unlimited prepay

service providers in certain of U.S. Cellular's markets.

- Postpay customers comprised approximately 95% of U.S. Cellular's retail customer base as of June 30, 2009. Postpay net additions were 28,000 in the first six months of 2009 (comprised of 60,000 net additions in the first quarter and 32,000 net defections in the second quarter) compared to 105,000 in 2008. The postpay churn rate was 1.6% in 2009.
- Service revenues of \$1,956.6 million increased \$7.2 million year-over-year, despite a \$34.7 million (22%) decrease in inbound roaming revenues. Retail service revenues grew by \$32.4 million (2%) due to increases in the average number of customers and the average monthly retail service revenue per customer.
- Additions to property, plant and equipment totaled \$228.9 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, expand mobile broadband services based on third generation Evolution Data Optimized technology (3G) to additional markets, outfit new and remodel existing retail stores and continue the development and enhancement of U.S. Cellular's office systems. Total cell sites in service increased 7% year-over-year to 7,043.

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- As a further proof point of its customer satisfaction strategy and Believe in Something Better™ brand message, U.S. Cellular launched its new Battery Swap program. Under this program, a customer can go to any store and exchange a battery that is dead or dying for one that is fully charged, at no cost to the customer. U.S. Cellular is the first wireless company to offer this service in the United States.
- U.S. Cellular began efforts on a number of multi-year initiatives including the development of: a new point-of-sale system to consolidate billing on one platform; an Electronic Data Warehouse/Customer Relationship Management System to collect and analyze information more efficiently to build and improve customer relationships; and a new Internet/Web platform to enable customers to complete a wide range of transactions and, eventually, to manage their accounts online.
- Operating income increased \$18.8 million, or 8%, to \$255.7 million in 2009 from \$236.9 million in 2008.

U.S. Cellular anticipates that future growth in its operating income will be affected by the following factors:

- Uncertainty related to current economic conditions and their impact on demand for U.S. Cellular's products and services;
- Increasing penetration in the wireless industry;
- Increased competition in certain markets, including competition from carriers offering low-priced, unlimited prepay service;
- Costs of customer acquisition and retention, such as equipment subsidies and advertising;
- Industry consolidation and the resultant effects on roaming revenues, service and equipment pricing and other effects of competition;
- Providing service in recently launched areas or potential new market areas;
- Potential increases or decreases in prepay and reseller customers as a percentage of U.S. Cellular's customer base;

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

See Results of Operations Wireless in the sections entitled Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 and Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008.

Table of Contents2009 Wireless Estimates

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

U.S. Cellular's estimates of full-year 2009 results for: service revenues; operating income; depreciation, amortization and accretion expenses; and capital expenditures, are shown below. Such estimates represent U.S. Cellular's views as of the date of filing of U.S. Cellular's Form 10-Q for the six months ended June 30, 2009. Such forward-looking statements should not be assumed to be accurate as of any future date. U.S. Cellular undertakes no duty to update such information whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from such estimated results.

| | 2009 | 2008 |
|--|---------------------------|-----------------------|
| | Estimated Results | Actual Results |
| Net retail customer additions (1) | | 149,000 |
| Service revenues | \$3,900 - \$3,950 million | \$3,940.3 million |
| Operating income(2) (3) | \$300 - \$375 million | \$27.7 million |
| Depreciation, amortization and accretion expenses(2) (3) | Approx. \$600 million | \$987.0 million |
| Capital expenditures | Approx. \$575 million | \$585.6 million |

(1) U.S. Cellular has withdrawn its net retail customer additions guidance for the remainder of 2009 due to uncertainty related to the weak economy and consumer purchasing intentions.

(2) 2008 Actual Results include losses on disposals of \$23.4 million and impairment of assets of \$386.7 million. The 2009 Estimated Results include only the estimate for Depreciation, amortization and accretion expenses and losses on disposals of assets, and do not include any estimate for losses on impairment of assets since these cannot be predicted.

(3) The 2008 loss on impairment of assets of \$386.7 million is not expected to have an impact on future operating results and liquidity. In addition, historical operating results, including the 2008 impairment, are not necessarily indicative of future operating results.

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

and customer service capabilities, and improve its prepay products and services.

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TDS Telecom

TDS Telecom provides high-quality telecommunications services, including full-service local exchange service, long-distance telephone service, and Internet access, to customers in rural and suburban area communities. TDS Telecom's business plan is designed for a full-service telecommunications company, including both ILEC and CLEC operations. TDS Telecom's strategy is to be the preferred provider of telecommunications services including voice, broadband, and video services in its chosen markets. This strategy encompasses many components, including:

- developing services and products;
- market and customer strategies;
- investing in networks and deploying advanced technologies;
- monitoring the competitive environment;
- advocating with respect to state and federal regulation for positions that support its ability to provide advanced telecommunications services to its customers; and
- exploring transactions to acquire or divest properties that would result in strengthening its operations.

Both ILECs and CLECs are faced with significant challenges, including the industry-wide decline in use of second lines by customers, growing competition from wireless and other wireline providers (other CLECs and cable providers), changes in regulation, new technologies such as Voice over Internet Protocol (VoIP), and the uncertainty in the economy. These challenges could have a material adverse effect on the financial condition, results of operations and cash flows of TDS Telecom in the future.

Overall equivalent access lines served by TDS Telecom as of June 30, 2009 decreased 4% compared to June 30, 2008. Equivalent access lines are the sum of physical access lines and high-capacity data lines adjusted to estimate the equivalent number of physical access lines in terms of capacity. A physical access line is an individual circuit connecting a customer to a telephone company's central office facilities. Each digital subscriber line (DSL) is treated as an equivalent access line in addition to a voice line that may operate on the same copper loop.

Operating revenues decreased \$18.2 million, or 4% to \$395.3 million during the six months ended June 30, 2009 from \$413.5 million in 2008. The decrease in 2009 was primarily due to a decline in ILEC and CLEC physical access lines and a decrease in network usage by inter-exchange carriers. These decreases were partially mitigated by acquisition of three ILEC companies in 2008 as well as an increase in ILEC data customers and revenues.

Operating income decreased to \$44.6 million during the six months ended June 30, 2009 compared to \$73.0 million in 2008, as a result of decreased revenues and increased costs. The higher costs in 2009 were primarily due to an increase in legal and excise tax expense related to discrete matters, severance incurred as a result of workforce reduction initiatives, the acquisition of three ILEC companies in 2008, and

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increased costs associated with the acquisition of new customers and increased network capacity. These expenses were partially offset by discrete events related to employee compensation and benefits modifications and lower expenses of serving fewer CLEC customers.

See Results of Operations Wireline in the sections entitled Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 and Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008.

Table of Contents2009 Wireline Estimates

TDS Telecom's estimates of full-year 2009 results are shown below. Such forward-looking statements should not be assumed to be accurate as of any future date. Such estimates represent TDS Telecom's view as of the filing date of TDS Form 10-Q for the six months ended June 30, 2009. TDS undertakes no duty to update such information whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from these estimated results.

| | 2009 Estimated Results | 2008 Actual Results |
|---|---------------------------|------------------------|
| ILEC and CLEC Operations: | | |
| Operating revenues | \$775 - \$800 million | \$824.3 million |
| Operating income | \$85 - \$105 million | \$142.2 million |
| Depreciation, amortization and accretion expenses | Approx. \$165 million | \$158.4 million |
| Capital expenditures | Approx. \$125 million | \$140.8 million |

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

Cash Flows and Investments - TDS and its subsidiaries had cash and cash equivalents totaling \$664.8 million, short-term investments in the form of certificates of deposit aggregating \$136.5 million, borrowing capacity under their revolving credit facilities of \$696.3 million, and additional bank lines of credit of \$10.0 million as of June 30, 2009. Also, during the six months ended June 30, 2009, TDS and its subsidiaries generated \$444.0 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 financial flexibility and are sufficient to permit TDS and its subsidiaries to finance their contractual obligations and anticipated capital and operating expenditures for the foreseeable future.

See Financial Resources and Liquidity and Capital Resources for additional information related to cash flows and investments, including the impacts of recent economic events.

Recent Developments - Congress recently enacted the American Recovery and Reinvestment Act of 2009, or the Recovery Act, which provides, among other things, for an aggregate appropriation of \$7.2 billion to fund grants and loans to provide broadband infrastructure, access and equipment to consumers residing in rural, unserved or underserved areas of the United States. A significant portion of these funds is expected to be made available in 2009 and 2010. The application deadline for a portion of the grants and loans is August 14, 2009. TDS Telecom and/or U.S. Cellular are currently assessing the eligibility requirements for the grants and loans and potential qualifying broadband projects, and may apply for the Recovery Act funds. There is no assurance TDS Telecom and/or U.S. Cellular, if they apply, will receive Recovery Act funds. The distribution of these grants and loans to other telecommunications

service providers could impact competition in certain of U.S. Cellular's and TDS Telecom's service areas.

Table of Contents**Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008****RESULTS OF OPERATIONS CONSOLIDATED**

| Six Months Ended June 30, | 2009 | 2008 | Increase/ (Decrease) | Percentage Change |
|---|--|--------------|-------------------------|----------------------|
| | (Dollars in thousands, except per share amounts) | | | |
| Operating revenues | | | | |
| U.S. Cellular | \$ 2,095,314 | \$ 2,098,448 | \$ (3,134) | |
| TDS Telecom | 395,262 | 413,500 | (18,238) | (4)% |
| All other(1) | 8,547 | 11,504 | (2,957) | (26)% |
| Total operating revenues | 2,499,123 | 2,523,452 | (24,329) | (1)% |
| Operating expenses | | | | |
| U.S. Cellular | 1,839,625 | 1,861,580 | (21,955) | (1)% |
| TDS Telecom | 350,706 | 340,494 | 10,212 | 3% |
| All other(1) | 17,983 | 18,026 | (43) | |
| Total operating expenses | 2,208,314 | 2,220,100 | (11,786) | (1)% |
| Operating income (loss) | | | | |
| U.S. Cellular | 255,689 | 236,868 | 18,821 | 8% |
| TDS Telecom | 44,556 | 73,006 | (28,450) | (39)% |
| All other(1) | (9,436) | (6,522) | (2,914) | (45)% |
| Total operating income (loss) | 290,809 | 303,352 | (12,543) | (4)% |
| Other income and (expenses) | | | | |
| Equity in earnings of unconsolidated entities | 43,700 | 44,379 | (679) | (2)% |
| Interest and dividend income | 4,974 | 27,201 | (22,227) | (82)% |
| Interest expense | (62,350) | (76,950) | 14,600 | 19% |
| Gain (loss) on investments and financial instruments | | (402) | 402 | N/M |
| Other, net | 474 | 1,703 | (1,229) | (72)% |
| Total investment and other income (expense) | (13,202) | (4,069) | (9,133) | N/M |
| Income before income taxes | | | | |
| | 277,607 | 299,283 | (21,676) | (7)% |
| Income tax expense | 93,674 | 102,512 | (8,838) | (9)% |
| Net income | | | | |
| | 183,933 | 196,771 | (12,838) | (7)% |
| Less: Net income attributable to noncontrolling interests, net of tax | (42,194) | (35,527) | (6,667) | (19)% |
| Net income attributable to TDS | 141,739 | 161,244 | (19,505) | (12)% |
| Preferred dividend requirement | (26) | (26) | | |
| Net Income available to common | \$ 141,713 | \$ 161,218 | \$ (19,505) | (12)% |
| Basic earnings per share attributable to TDS | | | | |
| | \$ 1.27 | \$ 1.38 | \$ (0.11) | (8)% |
| Diluted earnings per share attributable to TDS | | | | |
| | \$ 1.27 | \$ 1.37 | \$ (0.10) | (7)% |

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

N/M Percentage change not meaningful

Operating Revenues

The decline in U.S. Cellular revenues is primarily attributable to lower Inbound roaming revenues partially offset by increased Retail service revenues. The decline in TDS Telecom revenues primarily reflects the decline in ILEC and CLEC physical access lines and a decrease in network usage by inter-exchange carriers, offset somewhat by the acquisition of three ILEC businesses in 2008 and an increase in ILEC data customers.

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Operating Expenses

The decrease in U.S. Cellular expenses primarily reflects a lower Cost of equipment sold due to a decrease in cost per handset sold. In addition, U.S. Cellular depreciation decreased in 2009 primarily due to fully depreciating Time Division Multiple Access (TDMA) and analog network equipment in 2008. The increase in TDS Telecom expenses was primarily due to an increase in legal and excise tax expense arising from discrete matters, severance incurred as a result of workforce reduction initiatives, the acquisition of three ILEC companies in 2008, and increased costs associated with the acquisition of new customers and increased network capacity. These expenses were partially offset by discrete events related to employee compensation and benefits modifications and lower expenses of serving fewer CLEC customers.

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents TDS' share of net income from markets in which it has a noncontrolling interest and that are accounted for by the equity method. TDS follows the equity method of accounting for unconsolidated entities over which it has the ability to exercise significant influence, generally entities in which its ownership interest is less than or equal to 50% but equals or exceeds 20% for corporations and 3% for partnerships and limited liability companies.

TDS' investment in the Los Angeles SMSA Limited Partnership (LA Partnership) contributed \$34.0 million to Equity in earnings from unconsolidated entities in each of 2009 and 2008.

Equity income decreased primarily due to a \$7.1 million impairment loss recognized on an equity method investment in 2009.

Interest and dividend income

Interest income decreased \$11.5 million primarily due to a lower interest rate earned on cash balances coupled with lower average investment balances in 2009 compared to 2008.

Dividend income decreased \$10.7 million primarily due to a \$10.9 million decrease in dividends from Deutsche Telekom Ordinary Shares. These shares were disposed of in 2008.

Interest expense

The decrease in interest expense in 2009 was primarily a result of a \$12.0 million decrease in interest incurred on variable prepaid forward contracts which were settled in 2008.

Gain (loss) on investments and financial instruments

See Note 10 Marketable Equity Securities and Variable Prepaid Forward Contracts in the Notes to Consolidated Financial Statements for a description of transactions comprising the majority of the amount recorded in 2008.

Income tax expense

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

Table of Contents**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.

| | Six Months Ended June 30, | |
|---|------------------------------|-------------|
| | 2009 | 2008 |
| (Dollars in thousands) | | |
| Net income attributable to noncontrolling interests, net of tax | | |
| U.S. Cellular | | |
| Noncontrolling public shareholders | \$ (31,293) | \$ (27,324) |
| Noncontrolling shareholders or partners | (10,901) | (8,169) |
| | (42,194) | (35,493) |
| Other | | (34) |
| | \$ (42,194) | \$ (35,527) |

RESULTS OF OPERATIONS WIRELESS

TDS provides wireless telephone service through U.S. Cellular, an 81%-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 June 30,(1) | 2009 | 2008 |
|--|------------|------------|
| Total market population of consolidated operating markets(2) | 46,306,000 | 45,493,000 |
| Customers(3) | 6,155,000 | 6,194,000 |
| Market penetration(2) | 13.3% | 13.6% |
| Total full-time equivalent employees | 8,673 | 8,386 |
| Cell sites in service | 7,043 | 6,596 |
| | | |
| For the Six Months Ended June 30,(4) | 2009 | 2008 |
| Net retail customer additions(5) | 4,000 | 119,000 |
| Net customer additions (losses)(5) | (41,000) | 90,000 |
| Average monthly service revenue per customer(6) | \$ 52.51 | \$ 52.78 |
| Postpay churn rate (7) | 1.6% | 1.4% |

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

(2) Calculated using 2008 and 2007 Claritas population estimates for 2009 and 2008, respectively. Total market population of consolidated operating markets is used only for the purposes of calculating market penetration of consolidated operating markets, which is calculated by dividing customers by the total market population (without duplication of population in overlapping markets).

The total market population and penetration measures for consolidated operating markets apply to markets in which U.S. Cellular provides wireless service to customers. For comparison purposes, total market population and penetration related to all consolidated markets in which U.S. Cellular owns an interest were 83,726,000 and 7.4%, and 82,875,000 and 7.5%, as of June 30, 2009 and 2008, respectively.

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

| | June 30, | |
|---|-----------|-----------|
| | 2009 | 2008 |
| Customers on postpay service plans in which the end user is a customer of U.S. Cellular (postpay customers) | 5,448,000 | 5,367,000 |
| Customers on prepay service plans in which the end user is a customer of U.S. Cellular (prepay customers) | 263,000 | 310,000 |
| Total retail customers | 5,711,000 | 5,677,000 |
| End user customers acquired through U.S. Cellular's agreements with third parties (reseller customers) | 444,000 | 517,000 |
| Total customers | 6,155,000 | 6,194,000 |

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

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

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

| | Six Months Ended June 30, | |
|---|------------------------------|--------------|
| | 2009 | 2008 |
| Service revenues per Consolidated Statements of Operations (000s) | \$ 1,956,629 | \$ 1,949,446 |
| Divided by average customers during period (000s)* | 6,210 | 6,156 |
| Divided by number of months in each period | 6 | 6 |
| Average monthly service revenue per customer | \$ 52.51 | \$ 52.78 |

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

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

Table of Contents**Components of Operating Income**

| Six Months Ended June 30, | 2009 | 2008 | Increase/ (Decrease) | Percentage Change |
|---|------------------------|--------------|-------------------------|----------------------|
| | (Dollars in thousands) | | | |
| Retail service | \$ 1,745,307 | \$ 1,712,862 | \$ 32,445 | 2% |
| Inbound roaming | 122,280 | 156,956 | (34,676) | (22)% |
| Other | 89,042 | 79,628 | 9,414 | 12% |
| Service revenues | 1,956,629 | 1,949,446 | 7,183 | |
| Equipment sales | 138,685 | 149,002 | (10,317) | (7)% |
| Total operating revenues | 2,095,314 | 2,098,448 | (3,134) | |
| System operations (excluding Depreciation, amortization and accretion reported below) | 394,809 | 387,668 | 7,141 | 2% |
| Cost of equipment sold | 341,756 | 354,190 | (12,434) | (4)% |
| Selling, general and administrative Depreciation, amortization and accretion | 822,518 | 822,042 | 476 | |
| Loss on asset disposals, net | 276,265 | 287,788 | (11,523) | (4)% |
| Total operating expenses | 4,277 | 9,892 | (5,615) | (57)% |
| Operating income | \$ 1,839,625 | \$ 1,861,580 | \$ (21,955) | (1)% |
| | \$ 255,689 | \$ 236,868 | \$ 18,821 | 8% |

Operating Revenues***Service revenues***

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

Retail service revenues

The increase in Retail service revenues in 2009 was due to increases in both the average number of customers and the average monthly retail service revenue per customer. The average number of customers increased to 6,210,000 in 2009 from 6,156,000 in 2008. Average monthly retail service revenue per customer increased 1% to \$46.84 in 2009 from \$46.37 in 2008, as a significant increase in revenues from data products and services more than offset a decline in revenues from voice services.

Revenues from data products and services totaled \$318.9 million in 2009 and \$239.4 million in 2008, and represented 16% of total service revenues in 2009 compared to 12% of total service revenues in 2008. Such growth, which positively impacted average monthly retail service

revenue per customer, reflected customers' continued and increasing usage of U.S. Cellular's text, picture, and video messaging services, easyedgeSM service and applications, premium mobile Internet services, and smart phone handsets and services. During the six months ended June 30, 2009, U.S. Cellular introduced unlimited messaging plans and unlimited messaging and mobile Internet plans that further drove data usage and revenues. U.S. Cellular expects that the growth in revenues from data products and services will continue as customers migrate to the new unlimited plans and as U.S. Cellular's 3G network expands to cover 70% of its customers by the end of 2009.

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

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Inbound roaming revenues

The decrease in Inbound roaming revenues in 2009 was due primarily to a decline in roaming revenues from the combined entity of Verizon Wireless (Verizon) and Alltel Corporation (Alltel). In January 2009, Verizon acquired Alltel. As a result of this transaction, the network footprints of Verizon and Alltel were combined. This has resulted in a decrease in inbound roaming revenues for U.S. Cellular, since the combined Verizon and Alltel entity has reduced its usage of U.S. Cellular's network in certain coverage areas that were used by Verizon and Alltel (as separate entities). U.S. Cellular anticipates that this trend will increase over the next several quarters and will more than offset the positive impact of the trends of increasing minutes of use and increasing data usage from U.S. Cellular's other roaming partners.

Additional changes in the network footprints of other carriers due to additional consolidation or network expansions also could have an adverse effect on U.S. Cellular's inbound roaming revenues. U.S. Cellular also anticipates that its roaming revenue per minute of use will decline over time due to the renegotiation of existing contracts. The foregoing could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

Other revenues

The growth in Other revenues was due primarily to an increase in USF revenues, which represent amounts received from the USF for states in which U.S. Cellular has been designated as an Eligible Telecommunications Carrier (ETC). U.S. Cellular was eligible to receive ETC funds in sixteen states at June 30, 2009 and eleven states at June 30, 2008; the ETC revenue amounts were \$68.9 million in 2009 and \$61.9 million in 2008.

The Federal Communications Commission (FCC) is considering significant changes to the USF. U.S. Cellular is not able to predict what changes, if any, will be adopted by the FCC. Such changes could have a material adverse impact on U.S. Cellular's financial condition and results of operations.

Equipment sales revenues

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

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

The decrease in 2009 equipment sales revenues was driven primarily by a decline of 6% in average revenue per handset sold as the overall mix of handsets purchased by customers shifted to lower priced phones.

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Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

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

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

- Maintenance, utility and cell site expenses increased \$5.9 million, or 4%, in 2009, primarily driven by increases in the number of cell sites within U.S. Cellular's network and rent expense per cell site. The number of cell sites totaled 7,043 in 2009 and 6,596 in 2008, as U.S. Cellular continued to expand and enhance coverage in its existing markets; and
- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased \$1.9 million, or 2%, in 2009, due primarily to higher roaming minutes of use as more customers migrated to national and wide area plans.

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

- Increases in the number of cell sites and other network facilities within U.S. Cellular's systems as it continues to add capacity and enhance quality;
- Continued expansion of 3G services to additional markets; and
- Increases in total voice, text messaging and other data usage, both on U.S. Cellular's network and by U.S. Cellular's customers on other carriers' networks when roaming.

Cost of equipment sold

Cost of equipment sold decreased in 2009 due primarily to a 4% decline in cost per handset sold as the overall mix of handsets purchased by customers shifted to lower priced phones.

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

Selling, general and administrative expenses

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

Key components of the net increase in Selling, general and administrative expenses in 2009 were as follows:

- Selling and marketing expenses decreased \$2.6 million, or 1%, in 2009, primarily due to lower commissions resulting from a reduction in customer gross additions; and
- General and administrative expenses increased \$3.0 million, or 1%, in 2009, due primarily to higher sales taxes, employee related expenses and bad debts expense (reflecting higher bad debts experience as a percent of revenues), partially offset by lower universal service fund contributions.

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

Depreciation, amortization, and accretion

Total Depreciation, amortization and accretion expense decreased \$11.5 million, or 4%, in 2009. Depreciation decreased \$10.5 million, or 4%, in 2009, primarily due to fully depreciating Time Division Multiple Access (TDMA) and analog network equipment in 2008. U.S. Cellular discontinued its TDMA-based service during the six months ended June 30, 2009; in connection with such discontinuance, property, plant and equipment in service and accumulated depreciation of \$452.0 million were eliminated from the Consolidated Balance Sheet.

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

Loss on asset disposals, net

These amounts represent charges related to disposals of assets, trade-ins of older assets for replacement assets and other retirements of assets from service.

Table of Contents**RESULTS OF OPERATIONS WIRELINE**

TDS Telecom served 1,148,100 equivalent access lines at June 30, 2009, a net decrease of 43,400 lines from the 1,191,500 equivalent access lines served at June 30, 2008.

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

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

| As of June 30, | 2009 | 2008 | Increase/ (Decrease) |
|---------------------------|---------|---------|-------------------------|
| ILEC | | | |
| Equivalent access lines | 775,800 | 774,300 | 1,500 |
| Physical access lines | 548,000 | 577,000 | (29,000) |
| High-speed data customers | 197,100 | 164,400 | 32,700 |
| Long-distance customers | 354,100 | 346,100 | 8,000 |
| CLEC | | | |
| Equivalent access lines | 372,300 | 417,200 | (44,900) |
| High-speed data customers | 38,700 | 43,100 | (4,400) |

ILEC companies acquired after June 30, 2008 increased the equivalent and physical access line counts at June 30, 2009 by 11,600 and 8,900, respectively.

The decline in CLEC equivalent access lines from 2008 to 2009 is primarily the result of attrition in residential customers due to a shift in TDS Telecom's CLEC strategy to focus on serving primarily a commercial subscriber base.

TDS Telecom**Components of Operating Income**

| Six months ended June 30, | 2009 | 2008 | Increase/ (Decrease) | Percentage Change |
|---------------------------|------|------|-------------------------|----------------------|
|---------------------------|------|------|-------------------------|----------------------|

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(Dollars in thousands)

| | | | | | | | |
|--------------------------------|----|---------|----|---------|----|----------|-------|
| Operating revenues | | | | | | | |
| ILEC revenues | \$ | 298,395 | \$ | 305,014 | \$ | (6,619) | (2)% |
| CLEC revenues | | 101,282 | | 112,017 | | (10,735) | (10)% |
| Intra-company elimination | | (4,415) | | (3,531) | | (884) | (25)% |
| TDS Telecom operating revenues | | 395,262 | | 413,500 | | (18,238) | (4)% |
| Operating expenses | | | | | | | |
| ILEC expenses | | 254,756 | | 242,684 | | 12,072 | 5% |
| CLEC expenses | | 100,365 | | 101,341 | | (976) | (1)% |
| Intra-company elimination | | (4,415) | | (3,531) | | (884) | (25)% |
| TDS Telecom operating expenses | | 350,706 | | 340,494 | | 10,212 | 3% |
| TDS Telecom operating income | \$ | 44,556 | \$ | 73,006 | \$ | (28,450) | (39)% |

Table of Contents**Operating revenues**

Operating revenues decreased in 2009 primarily due to a decline in ILEC and CLEC physical access lines and a decrease in network usage by inter-exchange carriers. Acquisition of three ILEC companies in 2008 as well as an increase in ILEC data customers partially offset this decline.

Operating expenses

Operating expenses increased in 2009 due to an increase in legal expense and excise tax expense arising from discrete matters totaling \$3.4 million and severance of \$2.0 million incurred as a result of workforce reduction initiatives. Partially offsetting these expenses were discrete events related to employee compensation and benefits modifications which reduced expenses by \$3.2 million. Operating expenses also increased in 2008 due to the acquisition of three ILEC companies in 2008, and the costs associated with the acquisition of new customers and increased network capacity, partially offset by reduced expenses of serving fewer CLEC customers.

ILEC Operations**Components of Operating Income**

| Six months ended June 30, | 2009 | 2008 | Increase/ (Decrease) | Percentage Change |
|---|-----------|------------------------|-------------------------|----------------------|
| | | (Dollars in thousands) | | |
| Voice revenues | \$ 95,457 | \$ 102,501 | \$ (7,044) | (7)% |
| Data revenues | 50,551 | 42,924 | 7,627 | 18% |
| Network access revenues | 134,949 | 140,809 | (5,860) | (4)% |
| Miscellaneous revenues | 17,438 | 18,780 | (1,342) | (7)% |
| Total operating revenues | 298,395 | 305,014 | (6,619) | (2)% |
| Cost of services and products (excluding depreciation, amortization and accretion reported below) | 96,090 | 91,707 | 4,383 | 5% |
| Selling, general and administrative expenses | 86,857 | 83,897 | 2,960 | 4% |
| Depreciation, amortization and accretion | 71,388 | 67,126 | 4,262 | 6% |
| (Gain) loss on asset disposals, net | 421 | (46) | 467 | N/M |
| Total operating expenses | 254,756 | 242,684 | 12,072 | 5% |
| Total operating income | \$ 43,639 | \$ 62,330 | \$ (18,691) | (30)% |

N/M Not meaningful

Operating Revenues

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

The decrease in Voice revenues in 2009 was primarily due to a 6% decline in average physical access lines in service (excluding the impact of 2008 acquisitions) which negatively impacted local service revenues by \$5.2 million. From June 30, 2008 to June 30, 2009 second line disconnections accounted for 14% of the physical access line decline and were significantly influenced by subscribers converting to high-speed data services. Additionally, local service and long-distance revenues decreased by \$4.4 million as these products are included at a discount in broader service packages. Acquisition of three ILEC companies in 2008 increased Voice revenues \$1.6 million in 2009.

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

The increase in data revenues in 2009 was primarily due to the 19% growth in average high-speed data customers which accounted for increased revenues of \$7.0 million. Customers converting to higher DSL speeds drove the average revenue per customer higher, increasing revenues \$1.0 million net of bundling discounts in 2009. Increases in usage of other data products increased revenues by \$1.0 million. These increases were partially offset by a \$2.2 million decrease in dial-up Internet revenue primarily related to a decrease in dial-up customers. ILEC acquisitions in 2008 increased 2009 Data revenues \$0.8 million in 2009.

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

Network access revenues declined \$4.0 million in 2009 due to a 13% decrease in intra-state minutes of use, while a decline in inter-state minutes of use had a negative impact of \$0.9 million on revenues. Decreased expenses have reduced revenues received through inter-state regulatory recovery mechanisms by \$2.4 million. Revenues from special access circuits also declined \$2.1 million in 2009 due to disconnections. ILEC acquisitions in 2008 generated a \$3.3 million increase in 2009 Network access revenues to partially offset these declines.

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

Miscellaneous revenues are down primarily due to a decline in business systems sales.

Operating Expenses

Cost of services and products

The increase in Cost of services and products in 2009 was primarily driven by incentives to attract new customers of \$2.0 million, increased circuit bandwidth to support the growth in high-speed data products of \$1.5 million, higher employee related costs of \$0.8 million (including the impacts of severance and modifications to employee benefits), partially offset by a decrease in cost of goods sold related to business systems of \$0.6 million. ILEC acquisitions in 2008 increased Cost of services and products \$2.0 million in 2009.

Selling, general and administrative expenses

The increase in Selling, general and administrative expenses in 2009 was primarily due to an increase in legal expense and excise tax expense arising from discrete matters totaling \$3.2 million and severance of \$1.0 million as a result of workforce reduction initiatives. Partially offsetting these charges were discrete events related to employee compensation and benefits modifications which reduced expenses \$1.7 million. Also partially offsetting these charges were decreases in property taxes of \$1.0 million, consulting fees incurred in 2008 to implement cost reduction programs of \$0.8 million as well as a reduction in bad debts expense of \$0.5 million. ILEC acquisitions in 2008 increased Selling, general and administrative expenses \$1.5 million in 2009.

Depreciation, amortization and accretion expense

Depreciation, amortization and accretion expense increased \$1.5 million in 2009 as a result of capital additions placed in service in 2008. ILEC acquisitions in 2008 increased depreciation, amortization and accretion expense \$2.8 million in 2009.

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

| Six months ended June 30, | 2009 | 2008 | Increase/ (Decrease) | Percentage Change |
|--|-----------|------------------------|-------------------------|----------------------|
| | | (Dollars in thousands) | | |
| Retail revenues | \$ 90,625 | \$ 100,249 | \$ (9,624) | (10)% |
| Wholesale revenues | 10,657 | 11,768 | (1,111) | (9)% |
| Total operating revenues | 101,282 | 112,017 | (10,735) | (10)% |
| Cost of services and products (excluding depreciation, amortization and accretion reported below) | 53,119 | 55,161 | (2,042) | (4)% |
| Selling, general and administrative expenses | 34,912 | 34,483 | 429 | 1% |
| Depreciation, amortization and accretion | 12,138 | 11,453 | 685 | 6% |
| (Gain) loss on asset disposals, net | 196 | 244 | (48) | (20)% |
| Total operating expenses | 100,365 | 101,341 | (976) | (1)% |
| Total operating income | \$ 917 | \$ 10,676 | \$ (9,759) | (91)% |

N/M - Not meaningful

Prior year has been reclassified to conform with current year presentation.

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

Average CLEC equivalent access lines in service decreased 11% in 2009 compared to 2008, which resulted in a decrease in retail revenues of \$10.4 million. Average residential equivalent access lines decreased 25% as the CLEC operation continues to implement its strategic shift towards serving primarily a commercial subscriber base. The average equivalent access lines related to commercial customers declined 5%. Average revenue per subscriber increased during the period resulting in higher revenues of \$0.7 million in 2009.

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

The decline in wholesale revenues in 2009 was primarily driven by a 24% reduction in minutes of use partially offset by an increase in average rates resulting from a more favorable mixture of traffic carried.

Operating Expenses

Cost of services and products

Cost of services and products decreased in 2009 due to reduction in purchased network related services, primarily caused by the smaller residential customer base, which decreased expenses by \$3.7 million. The decrease was partially offset by additional expenses of \$1.1 million associated with the provisioning of managed Internet Protocol service to customers in 2009 as well as settlements with two inter-exchange carriers which reduced the cost of service in 2008 by \$2.1 million.

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Selling, general and administrative expenses

Selling, general and administrative expenses increased in 2009 due primarily to an increase in employee related costs of \$0.5 million (including the impacts of severance and modifications to employee benefits).

Depreciation, amortization and accretion

Depreciation, amortization and accretion expense increased \$0.7 million during 2009 primarily due to accelerated depreciation expense on certain circuit equipment due to technological obsolescence.

Table of Contents**Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008****RESULTS OF OPERATIONS CONSOLIDATED**

| Three Months Ended June 30, | 2009 | 2008 | Increase/ (Decrease) | Percentage Change |
|---|--|------------------|-------------------------|----------------------|
| | (Dollars in thousands, except per share amounts) | | | |
| Operating revenues | | | | |
| U.S. Cellular | \$ 1,042,550 | \$ 1,060,592 | \$ (18,042) | (2)% |
| TDS Telecom | 195,960 | 207,424 | (11,464) | (6)% |
| All other(1) | 3,967 | 6,335 | (2,368) | (37)% |
| Total operating revenues | 1,242,477 | 1,274,351 | (31,874) | (3)% |
| Operating expenses | | | | |
| U.S. Cellular | 901,631 | 942,690 | (41,059) | (4)% |
| TDS Telecom | 177,883 | 172,201 | 5,682 | 3% |
| All other(1) | 8,363 | 9,717 | (1,354) | (14)% |
| Total operating expenses | 1,087,877 | 1,124,608 | (36,731) | (3)% |
| Operating income (loss) | | | | |
| U.S. Cellular | 140,919 | 117,902 | 23,017 | 20% |
| TDS Telecom | 18,077 | 35,223 | (17,146) | (49)% |
| All other(1) | (4,396) | (3,382) | (1,014) | (30)% |
| Total operating income (loss) | 154,600 | 149,743 | 4,857 | 3% |
| Other income and (expenses) | | | | |
| Equity in earnings of unconsolidated entities | 18,363 | 22,909 | (4,546) | (20)% |
| Interest and dividend income | 2,902 | 17,455 | (14,553) | (83)% |
| Interest expense | (32,245) | (35,570) | 3,325 | 9% |
| Gain (loss) on investments and financial instruments | | 3,088 | (3,088) | N/M |
| Other, net | (25) | 1,902 | (1,927) | N/M |
| Total investment and other income (expense) | (11,005) | 9,784 | (20,789) | N/M |
| Income before income taxes | | | | |
| | 143,595 | 159,527 | (15,932) | (10)% |
| Income tax expense | 53,036 | 53,261 | (225) | |
| Net income | | | | |
| | 90,559 | 106,266 | (15,707) | (15)% |
| Less: Net income attributable to noncontrolling interests, net of tax | (20,828) | (18,509) | (2,319) | (13)% |
| Net income attributable to TDS | 69,731 | 87,757 | (18,026) | (21)% |
| Preferred dividend requirement | (13) | (13) | | |
| Net Income available to common | \$ 69,718 | \$ 87,744 | \$ (18,026) | (21)% |
| Basic earnings per share attributable to TDS | \$ 0.63 | \$ 0.75 | \$ (0.12) | (16)% |
| Diluted earnings per share attributable to TDS | \$ 0.63 | \$ 0.75 | \$ (0.12) | (16)% |

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

N/M Percentage change not meaningful

Operating Revenues

The decline in U.S. Cellular revenues is primarily attributable to lower Inbound roaming revenues partially offset by increased Retail service revenues. The decline in TDS Telecom revenues primarily reflects a decline in ILEC and CLEC physical access lines and a decrease in network usage by inter-exchange carriers, offset somewhat by the acquisition of two ILEC businesses in 2008 and an increase in ILEC data customers.

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Operating Expenses

The decrease was a result of lower U.S. Cellular operating expenses across all categories and, in particular, a lower Cost of equipment sold, which was due to decreases in both the number of handsets sold and the average cost per handset sold. The increase in TDS Telecom expenses was primarily due to an increase in legal and excise tax expense related to discrete matters, severance incurred as a result of workforce reduction initiatives, the acquisition of two ILEC companies in 2008, and increased costs associated with the acquisition of new customers and increased network capacity. These expenses were partially offset by discrete events related to employee compensation and benefit modifications and lower expenses of serving fewer CLEC customers.

Equity in earnings of unconsolidated entities

TDS' investment in the Los Angeles SMSA Limited Partnership (LA Partnership) contributed \$17.1 million and \$18.2 million to Equity in earnings from unconsolidated entities in 2009 and 2008, respectively. Equity income decreased primarily due to a \$7.1 million impairment loss recognized on an equity method investment in 2009.

Interest and dividend income

Interest income decreased \$3.7 million primarily due to a lower interest rate paid on cash balances coupled with lower average investment balances in 2009 compared to 2008.

Dividend income decreased \$10.8 million in 2009 from 2008 primarily due to a \$10.9 million decrease in dividends from Deutsche Telekom Ordinary Shares. These shares were disposed of in 2008.

Interest expense

The decrease in interest expense in 2009 was primarily a result of a \$2.8 million decrease in interest incurred on variable prepaid forward contracts which were settled in 2008.

Gain (loss) on investments and financial instruments

See Note 10 Marketable Equity Securities and Variable Prepaid Forward Contracts in the Notes to Consolidated Financial Statements for a description of transactions comprising the majority of the amount recorded in 2008.

Income tax expense

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

Table of Contents**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.

| | Three Months Ended June 30, | |
|---|--|-------------|
| | 2009 | 2008 |
| (Dollars in thousands) | | |
| Net income attributable to noncontrolling interests, net of tax | | |
| U.S. Cellular | | |
| Noncontrolling public shareholders | \$ (15,502) | \$ (13,842) |
| Noncontrolling shareholders or partners | (5,326) | (4,706) |
| | (20,828) | (18,548) |
| Other | | 39 |
| | \$ (20,828) | \$ (18,509) |

RESULTS OF OPERATIONS WIRELESS

| Three Months Ended June 30, | 2009 | 2008 | Increase/ (Decrease) | Percentage Change |
|--|------------|------------|-------------------------|----------------------|
| (Dollars in thousands) | | | | |
| Retail service | \$ 871,209 | \$ 862,392 | \$ 8,817 | 1% |
| Inbound roaming | 62,223 | 84,201 | (21,978) | (26)% |
| Other | 41,323 | 40,759 | 564 | 1% |
| Service revenues | 974,755 | 987,352 | (12,597) | (1)% |
| Equipment sales | 67,795 | 73,240 | (5,445) | (7)% |
| Total operating revenues | 1,042,550 | 1,060,592 | (18,042) | (2)% |
| System operations (excluding Depreciation, amortization and accretion reported below) | 194,806 | 196,652 | (1,846) | (1)% |
| Cost of equipment sold | 156,055 | 176,145 | (20,090) | (11)% |
| Selling, general and administrative | 410,070 | 418,416 | (8,346) | (2)% |
| Depreciation, amortization and accretion | 138,614 | 145,258 | (6,644) | (5)% |
| Loss on asset disposals, net | 2,086 | 6,219 | (4,133) | (66)% |
| Total operating expenses | 901,631 | 942,690 | (41,059) | (4)% |
| Operating income | \$ 140,919 | \$ 117,902 | \$ 23,017 | 20% |

Operating Revenues*Retail service revenues*

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The increase in retail service revenues in 2009 was due to increases in both the average number of customers and average monthly retail service revenue per customer. The average number of customers increased to 6,199,000 from 6,178,000 in 2008. Average monthly retail service revenue per customer increased 1% to \$46.85 in 2009 from \$46.53 in 2008, as a significant increase in revenues from data products and services more than offset a decline in revenues from voice services.

Revenues from data products and services totaled \$162.0 million in 2009 and \$123.7 million in 2008, and represented 17% of total service revenues in 2009 compared to 13% of total service revenues in 2008. Such growth, which positively impacted average monthly retail service revenue per customer, reflected customers' continued and increasing usage of U.S. Cellular's text, picture, and video messaging services, **easyedge**SM service and applications, premium mobile Internet services, and smart phone handsets and services. In 2009, U.S. Cellular introduced unlimited messaging plans and unlimited messaging and mobile Internet plans that further drove data usage and revenues.

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

Inbound roaming revenues

The decrease in Inbound roaming revenues in 2009 was due primarily to a decline in roaming revenues from the combined entity of Verizon and Alltel, partially offset by an increase in data roaming.

Equipment sales revenues

The decrease in 2009 equipment sales revenues was driven by a decline in total handsets sold of 5% and a decline in average revenue per handset sold of 2% as the mix of handsets purchased by customers shifted to lower priced phones.

Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

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

- Network usage expenses on U.S. Cellular's systems decreased \$5.5 million, or 8%, in 2009, due primarily to reduced interconnection costs; and
- Maintenance, utility and cell site expenses increased \$3.1 million, or 4%, in 2009, driven primarily by increases in the number of cell sites within U.S. Cellular's network and rent expense per cell site. The number of cell sites totaled 7,043 in 2009 and 6,596 in 2008, as U.S. Cellular continued to expand and enhance coverage in its existing markets.

Cost of equipment sold

The decrease in Cost of equipment sold was due to a decline in total handsets sold of 5% and a decline in the average cost per handset sold of 8% as the mix of handsets purchased by customers shifted to lower priced phones.

Selling, general and administrative expenses

The decrease in Selling, general and administrative expenses was due primarily to a decline in Selling and marketing expenses of \$7.7 million, or 4%. Key components of the decrease in Selling and marketing expenses were as follows:

- Advertising expenses decreased \$5.1 million, or 8%, in 2009, primarily due to a decrease in media purchases; such purchases were higher in the previous period due to the launch in June 2008 of a new branding campaign, Believe in Something Better ; and
- Other selling and marketing expenses decreased \$2.6 million, or 2%, in 2009, primarily due to lower commissions resulting from a reduction in customer gross additions.

Depreciation, amortization, and accretion

Total Depreciation, amortization and accretion expense decreased \$6.6 million, or 5%, in 2009. Depreciation decreased primarily due to fully depreciating TDMA and analog network equipment in 2008, as discussed above.

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

| Three months ended June 30, | 2009 | 2008 | Increase/ (Decrease) | Percentage Change |
|---------------------------------------|------------------------|------------------|-------------------------|----------------------|
| | (Dollars in thousands) | | | |
| Operating revenues | | | | |
| ILEC revenues | \$ 148,208 | \$ 153,199 | \$ (4,991) | (3)% |
| CLEC revenues | 50,093 | 55,888 | (5,795) | (10)% |
| Intra-company elimination | (2,341) | (1,663) | (678) | (41)% |
| TDS Telecom operating revenues | 195,960 | 207,424 | (11,464) | (6)% |
| Operating expenses | | | | |
| ILEC expenses | 129,819 | 121,766 | 8,053 | 7% |
| CLEC expenses | 50,405 | 52,098 | (1,693) | (3)% |
| Intra-company elimination | (2,341) | (1,663) | (678) | (41)% |
| TDS Telecom operating expenses | 177,883 | 172,201 | 5,682 | 3% |
| TDS Telecom operating income | \$ 18,077 | \$ 35,223 | \$ (17,146) | (49)% |

Operating revenues

Operating revenues decreased in 2009 primarily due to a decline in ILEC and CLEC physical access lines and a decrease in network usage by inter-exchange carriers. Acquisition of two ILEC companies in 2008 as well as an increase in ILEC data customers partially offset this decline.

Operating expenses

Operating expenses increased in 2009 due to an increase in legal and excise tax expense related to discrete matters totaling \$3.4 million and severance of \$1.6 million incurred as a result of workforce reduction initiatives. Offsetting these expenses were discrete events related to employee compensation and benefit modifications which reduced expenses by \$3.1 million. Operating expenses also increased in 2008 due to the acquisition of two ILEC companies in 2008, the costs associated with the acquisition of new customers and increased network capacity, partially offset by reduced expenses of serving fewer CLEC customers.

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

| Three months ended June 30, | 2009 | 2008 | Increase/ (Decrease) | Percentage Change |
|---|-----------|------------------------|-------------------------|----------------------|
| | | (Dollars in thousands) | | |
| Voice revenues | \$ 46,879 | \$ 50,925 | \$ (4,046) | (8)% |
| Data revenues | 25,491 | 21,738 | 3,753 | 17% |
| Network access revenues | 67,118 | 70,727 | (3,609) | (5)% |
| Miscellaneous revenues | 8,720 | 9,809 | (1,089) | (11)% |
| Total operating revenues | 148,208 | 153,199 | (4,991) | (3)% |
| Cost of services and products (excluding depreciation, amortization and accretion reported below) | 48,406 | 46,873 | 1,533 | 3% |
| Selling, general and administrative expenses | 45,828 | 41,416 | 4,412 | 11% |
| Depreciation, amortization and accretion | 35,302 | 33,502 | 1,800 | 5% |
| (Gain) loss on asset disposals, net | 283 | (25) | 308 | N/M |
| Total operating expenses | 129,819 | 121,766 | 8,053 | 7% |
| Total operating income | \$ 18,389 | \$ 31,433 | \$ (13,044) | (41)% |

N/M Not meaningful

Operating Revenues***Voice revenues***

The decrease in Voice revenues in 2009 was primarily due to a 6% decline in average physical access lines in service (excluding the impact of 2008 acquisitions) which negatively impacted local service revenues by \$2.5 million. From June 30, 2008 to June 30, 2009, second line disconnections accounted for 14% of the physical access line decline and were significantly influenced by subscribers converting to high-speed data services. Additionally, local service and long-distance revenues decreased by \$2.4 million as these products are included at a discount in broader service packages. The acquisition of two ILEC companies in 2008 increased Voice revenues \$0.6 million for the period.

Data revenues

The increase in Data revenues in 2009 was primarily due to the 19% growth in average high-speed data customers which accounted for increased revenues of \$3.5 million. Customers converting to higher DSL speeds drove the average revenue per customer higher, increasing revenues \$0.3 million net of bundling discounts in 2009. Increases in usage of other data products increased revenues by \$0.6 million. These increases were partially offset by a \$1.0 million decrease in dial-up Internet revenue primarily related to a decrease in dial-up customers. ILEC acquisitions in 2008 increased 2009 Data revenues \$0.4 million.

Network access revenues

Network access revenues declined \$1.6 million in 2009 due to a 12% decrease in intra-state minutes of use, while a decline in inter-state minutes of use had a negative impact on revenues of \$0.6 million. Decreased expenses have reduced revenues received through inter-state regulatory recovery mechanisms by \$2.4 million. Revenues from special access circuits also declined \$1.1 million in 2009 due to disconnections. ILEC acquisitions in 2008 generated a \$1.6 million increase in 2009 Network access revenues to partially offset these declines.

Miscellaneous revenues

Miscellaneous revenues are primarily down due to a decline in business systems sales.

Table of Contents**Operating Expenses***Cost of services and products*

The increase in Cost of services and products for the quarter was primarily driven by incentives to attract new customers of \$1.1 million, increased circuit bandwidth to support the growth in high-speed data products of \$0.9 million, partially offset by lower employee related costs of \$0.6 million (including the impacts of severance and modifications to employee benefits) and a decrease in cost of goods sold related to business telephone equipment of \$0.6 million. ILEC acquisitions in 2008 increased Cost of services and products \$1.1 million for the period.

Selling, general and administrative expenses

The increase in Selling, general and administrative expenses in 2009 was primarily due to an increase in legal expense and excise tax expense arising from discrete matters totaling \$3.2 million and severance of \$0.6 million incurred as a result of workforce reduction initiatives. Partially offsetting these charges were discrete events related to employee compensation and benefit modifications which reduced expenses \$1.7 million. Also partially offsetting these charges was a reduction in property taxes of \$0.4 million. ILEC acquisitions in 2008 increased Selling, general and administrative expenses \$0.9 million for the period.

Depreciation, amortization and accretion expense

Depreciation, amortization and accretion expense increased \$0.5 million in 2009 as a result of capital additions placed in service in 2008. ILEC acquisitions in 2008 increased depreciation, amortization and accretion expense \$1.3 million.

CLEC Operations**Components of Operating Income**

| Three months ended June 30, | 2009 | 2008 | Increase/ (Decrease) | Percentage Change |
|-----------------------------|------------------------|-----------|-------------------------|----------------------|
| | (Dollars in thousands) | | | |
| Retail revenues | \$ 45,055 | \$ 49,964 | \$ (4,909) | (10)% |
| Wholesale revenues | 5,038 | 5,924 | (886) | (15)% |
| Total operating revenues | 50,093 | 55,888 | (5,795) | (10)% |
| | 26,348 | 28,828 | (2,480) | (9)% |

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| | | | | |
|---|----------|----------|------------|-------|
| Cost of services and products (excluding depreciation, amortization and accretion reported below) | | | | |
| Selling, general and administrative expenses | 17,577 | 17,457 | 120 | 1% |
| Depreciation, amortization and accretion | 6,361 | 5,569 | 792 | 14% |
| (Gain) loss on asset disposals, net | 119 | 244 | (125) | (51)% |
| Total operating expenses | 50,405 | 52,098 | (1,693) | (3)% |
| Total operating income | \$ (312) | \$ 3,790 | \$ (4,102) | N/M |

N/M - Not meaningful

Prior year has been reclassified to conform with current year presentation.

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Operating Revenues

Retail revenues

Average CLEC equivalent access lines in service decreased 11% in 2009 compared to 2008, which resulted in a decrease in retail revenues of \$5.3 million. Average residential equivalent access lines decreased 26% as the CLEC operation continues to implement its strategic shift towards serving primarily a commercial subscriber base. The average equivalent access lines related to commercial customers declined 5%. Average revenue per subscriber increased during the period resulting in higher revenues of \$0.4 million in 2009.

Wholesale revenues

The decline in wholesale revenues in 2009 was primarily driven by a 29% reduction in minutes of use partially offset by an increase in average rates resulting from a more favorable mixture of traffic carried.

Operating Expenses

Cost of services and products

Cost of services and products decreased in 2009 due to reduction in purchased network related services, primarily caused by the smaller residential customer base, which decreased expenses by \$1.9 million. The decrease was partially offset by additional expenses of \$0.6 million associated with the provisioning of managed Internet Protocol service to customers in 2009.

Selling, general and administrative expenses

Selling, general and administrative expenses increased in 2009 due primarily to an increase in employee related costs (including the impacts of severance and modification to employee benefits).

Depreciation, amortization and accretion

Depreciation, amortization and accretion expense increased \$0.8 million during 2009 primarily due to accelerated depreciation expense on certain circuit equipment due to technological obsolescence.

Table of Contents**RECENT ACCOUNTING PRONOUNCEMENTS**

Recent accounting pronouncements are either not expected to have a significant effect on TDS' financial condition or results of operations or TDS is currently analyzing such pronouncements in order to determine their impact, if any.

See Note 2 – Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements for information on recent accounting pronouncements.

FINANCIAL RESOURCES

TDS operates a capital- and marketing-intensive business. TDS utilizes cash from its operating activities, cash proceeds from divestitures and dispositions of investments, short-term credit facilities, long-term debt financing and cash on hand to fund its acquisitions including licenses, construction costs, operating expenses and share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions, capital expenditures and other factors. The tables below and the following discussion in this Financial Resources section summarize TDS' cash flow activities in the six months ended June 30, 2009 compared to the six months ended June 30, 2008.

The following table provides a summary of TDS' cash flow activities:

| | 2009 | | 2008 |
|---|------------------------|----|-----------|
| | (Dollars in thousands) | | |
| Cash flows from (used in): | | | |
| Operating activities | \$ 443,961 | \$ | 495,439 |
| Investing activities | (412,878) | | (418,267) |
| Financing activities | (143,635) | | (126,455) |
| Net decrease in cash and cash equivalents | \$ (112,552) | \$ | (49,283) |

Cash Flows from Operating Activities

Cash flows from operating activities in 2009 were \$444.0 million, a decrease of \$51.5 million from 2008. Significant changes included the following:

- Operating income adjusted for non-cash items, as shown in the table below, decreased by \$14.5 million, from \$733.5 million in 2008 to \$719.0 million in 2009.

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| | 2009 | (Dollars in thousands) | | 2008 |
|--|------|------------------------|----|---------|
| Operating income | \$ | 290,809 | \$ | 303,352 |
| Non-cash items | | | | |
| Depreciation, amortization and accretion | | 366,115 | | 374,184 |
| Bad debts expense | | 42,761 | | 36,806 |
| Stock-based compensation expense | | 14,394 | | 9,022 |
| Loss on asset disposals, net | | 4,912 | | 10,090 |
| Operating income other than non-cash items | \$ | 718,991 | \$ | 733,454 |

TDS management believes the foregoing information provides useful information to investors regarding TDS financial condition and results of operations because it breaks out and shows the components and impact of cash and non-cash items on cash flows from operating activities.

- A \$33.0 million distribution from the LA Partnership was received in 2008. A \$33.0 million distribution for 2009 was approved in June, but not received until July, resulting in a decline in Distributions from unconsolidated entities.
- Changes in accounts payable, customer deposits and deferred revenues required \$68.8 million in 2009 and provided \$6.1 million in 2008. The \$74.9 million increase in cash outflows was driven primarily by timing differences in payments of accounts payable and lower deposit requirements for new customers in 2009.

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- Income tax payments, net of refunds, in 2009 and 2008 were \$31.5 million and \$116.9 million, respectively, resulting in a decrease in cash outflows of \$85.4 million. Income tax payments were higher in 2008 compared to 2009 primarily due to tax gains realized on the disposition of Deutsche Telekom marketable equity securities and related variable prepaid forward contracts during 2008.
- In 2009, a \$38.0 million deposit was paid to the Internal Revenue Service to eliminate any potential interest expense subsequent to the deposit. The deposit was recorded in Change in other assets and liabilities in the Consolidated Statement of Cash Flows in 2009. See Note 5 Income Taxes for additional information.

Cash Flows from Investing Activities

TDS makes substantial investments to acquire wireless licenses and properties and to construct, operate and upgrade modern high-quality communications networks and facilities as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities have required substantial investments in potentially revenue-enhancing and cost-reducing upgrades to TDS networks.

Cash used for property, plant and equipment and system development totaled \$290.8 million in 2009 and \$299.1 million in 2008. The primary purpose of TDS construction and expansion expenditures is to provide for customer and usage growth, to upgrade service and to take advantage of service-enhancing and cost-reducing technological developments in order to maintain competitive services.

- U.S. Cellular's capital expenditures totaled \$228.9 million in 2009 and \$249.5 million in 2008 representing expenditures to construct cell sites, increase capacity in existing cell sites and switches, upgrade technology including the overlay of 3G technology in certain markets, develop new and enhance existing office systems, and construct new and remodel existing retail stores.
- TDS Telecom's capital expenditures for its ILEC operations totaled \$47.6 million in 2009 and \$37.5 million in 2008 representing expenditures to upgrade plant and equipment to provide enhanced services. TDS Telecom's capital expenditures for its CLEC operations totaled \$10.7 million in 2009 and \$8.1 million in 2008 for switching and other network facilities.
- Corporate and other capital expenditures totaled \$3.6 million in 2009 and \$4.0 million in 2008.

Acquisitions required cash payments of \$15.0 million and \$334.4 million in 2009 and 2008, respectively. The cash required for acquisitions in 2008 included capital contributions and advances of \$300.5 million to King Street Wireless L.P. (King Street Wireless) and its general partner. King Street Wireless general partner also made a capital contribution of \$0.1 million. King Street Wireless used these funds in connection with its participation in FCC Auction 73.

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TDS realized net cash proceeds of \$226.6 million in 2008 from the sale of Deutsche Telekom Ordinary Shares offset by \$17.4 million in cash payments to settle the collar portion of certain variable prepaid forward contracts related to such shares. See Note 10 Marketable Equity Securities and Variable Prepaid Forward Contracts in the Notes to Consolidated Financial Statements for additional details on these settlements.

TDS invested \$109.1 million in certificates of deposit in the six months ended June 30, 2009. No certificates of deposit were purchased during the six months ended June 30, 2008.

Cash Flows from Financing Activities

There were no short-term borrowings or repayments on the revolving lines of credit in 2009. Short-term borrowings and repayments during 2008 were \$100.0 million and \$50.0 million, respectively.

TDS payment to settle the debt portion of the variable prepaid forward contracts related to Deutsche Telekom Ordinary Shares totaled \$47.4 million in 2008. See Note 10 Marketable Equity Securities and Variable Prepaid Forward Contracts in the Notes to Consolidated Financial Statements for additional details on these settlements.

In 2009, TDS repurchased Special Common Shares at an aggregate cost of \$86.0 million. A total of \$84.6 million was paid in cash before June 30, 2009 and \$1.4 million was paid in July 2009. In addition, in January 2009 TDS paid \$2.0 million for the fourth quarter 2008 share repurchases. In 2008, TDS repurchased Special Common Shares at an aggregate cost of \$83.0 million.

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Payment for repurchase of U.S. Cellular Common Shares required \$19.3 million in 2009 and \$19.1 million in 2008. U.S. Cellular also received \$4.6 million in 2008 from an investment banking firm for the final settlement of the accelerated share repurchases made in 2007. See Note 14 TDS and U.S. Cellular Share Repurchases in the Notes to Consolidated Financial Statements for additional information related to these transactions.

LIQUIDITY AND CAPITAL RESOURCES

Recent events in the financial services sector and correlating impacts to other sectors of the economy have resulted in concerns regarding investment security values, the availability of and concentration of credit, insurance coverage and a variety of other areas. Although TDS' cash balance, conservative strategies for investing cash on hand and funds available under its revolving credit agreements have limited its exposure to these events to date, TDS and its subsidiaries continue to monitor economic conditions and developments and will make adjustments to its cash investments, borrowing arrangements, and insurance coverage as necessary and feasible.

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

TDS believes that existing cash balances, expected cash flows from operating activities and funds available under its new revolving credit facilities provide financial flexibility for TDS to meet its normal financing needs (including working capital, construction and development expenditures and share repurchases under approved programs) for the foreseeable future. In addition, TDS and its subsidiaries may have access to public and private capital markets to help meet their financing needs.

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

Cash and Cash Equivalents

At June 30, 2009, TDS had \$664.8 million in cash and cash equivalents, which include cash and short-term, highly liquid investments with original maturities of three months or less. The primary objective of TDS' cash and cash equivalents investment activities is to preserve principal. At June 30, 2009, TDS invested substantially all of its cash balances in money market funds that invested exclusively in short-term U.S. Treasury securities or repurchase agreements backed by U.S. Treasury securities. TDS monitors the financial viability of the money market funds in which it invests and believes that the credit risk associated with these investments is low.

Short-term Investments

TDS holds certificates of deposit totaling \$136.5 million at June 30, 2009 which are included in Short-term investments in the Consolidated Balance Sheet. These certificates of deposit had original maturities of between 180 days and one year and earn interest at annual rates between 0.99% and 2.82%.

Revolving Credit Facilities

Prior to June 30, 2009, TDS had a \$600 million revolving credit facility available for general corporate purposes. On June 30, 2009, TDS entered into a new \$400 million revolving credit agreement with certain lenders and other parties. As a result, TDS \$600 million revolving credit agreement, which was due to expire in December 2009, was terminated on June 30, 2009 as a condition of entering into the new agreement. The new revolving credit agreement provides TDS with a \$400 million senior revolving credit facility for working capital, non-hostile acquisitions and other corporate purposes and to refinance any existing debt of TDS. Amounts under the new revolving credit facility may be borrowed, repaid and reborrowed from time to time from and after June 30, 2009 until maturity in June 2012.

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At June 30, 2009, TDS had no outstanding borrowings and \$3.4 million of outstanding letters of credit, leaving \$396.6 million available for use. Borrowings under TDS' new revolving credit facility bear interest at the London InterBank Offered Rate (LIBOR) (or, at TDS' option, an alternate Base Rate as defined in the new revolving credit agreement) plus a contractual spread based on TDS' credit rating. TDS may select borrowing periods of either one, two, three or six months (or other period of twelve months or less requested by TDS if approved by the lenders). At June 30, 2009, the one-month LIBOR was 0.31% and the contractual spread was 300 basis points. If TDS provides less than three business days notice of intent to borrow, interest on borrowings is at the Base Rate plus the contractual spread (the Base Rate was 3.25% at June 30, 2009).

Prior to June 30, 2009, U.S. Cellular had a \$700 million revolving credit facility available for general corporate purposes. On June 30, 2009, U.S. Cellular entered into a new \$300 million revolving credit agreement with certain lenders and other parties. As a result, U.S. Cellular's \$700 million revolving credit agreement, which was due to expire in December 2009, was terminated on June 30, 2009 as a condition of entering into the new agreement. The new revolving credit agreement provides U.S. Cellular with a \$300 million senior revolving credit facility for working capital, non-hostile acquisitions and other corporate purposes and to refinance any existing debt of U.S. Cellular. Amounts under the new revolving credit facility may be borrowed, repaid and reborrowed from time to time from and after June 30, 2009 until maturity in June 2012.

At June 30, 2009, U.S. Cellular had no outstanding borrowings and \$0.3 million of outstanding letters of credit, leaving \$299.7 million available for use. Borrowings under U.S. Cellular's new revolving credit facility bear interest at the LIBOR (or, at U.S. Cellular's option, an alternate Base Rate as defined in the new revolving credit agreement) plus a contractual spread based on U.S. Cellular's credit rating. U.S. Cellular may select borrowing periods of either one, two, three or six months (or other period of twelve months or less requested by U.S. Cellular if approved by the lenders). At June 30, 2009, the one-month LIBOR was 0.31% and the contractual spread was 300 basis points. If U.S. Cellular provides less than three business days notice of intent to borrow, interest on borrowings is the Base Rate plus the contractual spread (the Base Rate was 3.25% at June 30, 2009).

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

TDS and U.S. Cellular's credit ratings as of June 30, 2009, and the dates that such ratings were issued were as follows:

| | | |
|---|------|-------------------------|
| Moody's (issued August 15, 2008) | Baa2 | - stable outlook |
| Standard & Poor's (issued March 13, 2008) | BBB- | - with positive outlook |
| Fitch Ratings (issued August 16, 2007) | BBB+ | - stable outlook |

The continued availability of the new revolving credit facility requires TDS and U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing. TDS and U.S. Cellular believe they were in compliance as of June 30, 2009 with all other covenants and requirements set forth in their new revolving credit facilities.

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The maturity date of any borrowings under the TDS and U.S. Cellular new revolving credit facilities would accelerate in the event of a change in control.

In connection with U.S. Cellular's new revolving credit facility, TDS and U.S. Cellular entered into a subordination agreement dated June 30, 2009 together with the administrative agent for the lenders under U.S. Cellular's new revolving credit agreement. Pursuant to this subordination agreement, (a) any consolidated funded indebtedness from U.S. Cellular to TDS will be unsecured and (b) any (i) consolidated funded indebtedness (other than refinancing indebtedness as defined in the subordination agreement) in excess of \$105,000,000, and (ii) refinancing indebtedness in excess of \$250,000,000, will be subordinated and made junior in right of payment to the prior payment in full of obligations to the lenders under U.S. Cellular's new revolving credit agreement. The aggregate outstanding principal amount of consolidated funded indebtedness of U.S. Cellular that was subordinated pursuant to this subordination agreement was zero as of June 30, 2009.

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Long-term Financing

TDS and its subsidiaries' long-term debt and indentures do not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in TDS' credit rating. However, a downgrade in TDS' credit rating could adversely affect its ability to obtain long-term debt financing in the future. TDS believes it and its subsidiaries were in compliance as of June 30, 2009 with all covenants and other requirements set forth in long-term debt indentures. TDS and U.S. Cellular have not failed to make nor do they expect to fail to make any scheduled payment of principal or interest under such indentures.

The long-term debt principal payments due for the remainder of 2009 and the next four years comprise approximately 1% of the total long-term debt obligation at June 30, 2009. Refer to Market Risk - Long-Term Debt in TDS' Form 10-K for the year ended December 31, 2008 for additional information regarding required principal payments and the weighted average interest rates related to TDS' long-term debt.

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

Capital Expenditures

U.S. Cellular's capital expenditures for 2009 are expected to be approximately \$575 million. These expenditures are expected to be for the following general purposes:

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

- Develop new billing and other customer management related systems and platforms.

TDS Telecom's anticipated capital expenditures for 2009 are expected to be approximately \$125 million to upgrade plant and equipment to provide enhanced services.

TDS plans to finance its construction program for 2009 using cash flows from operating activities and, if necessary, short-term debt.

Suppliers

TDS depends upon certain key suppliers to provide it with handsets, equipment, services or content to continue its network build and upgrade and to operate its business. TDS does not have operational or financial control over any of such key suppliers and has limited influence with respect to the manner in which these key suppliers conduct their businesses. If these key suppliers experience financial difficulties and are unable to provide equipment, services or content to TDS on a timely basis or cease to provide such equipment, services or content or if such key suppliers otherwise fail to honor their obligations to TDS, TDS may be unable to maintain and upgrade its network or provide services to its customers in a competitive manner, or could suffer other disruptions to its business. In that event, TDS' business, financial condition or results of operations could be adversely affected. TDS monitors the financial condition of its key suppliers through its risk management process.

In January 2009, Nortel Networks Corporation (Nortel), a key supplier of network equipment, business communications systems, and technical support for TDS, announced that it, Nortel Networks Limited and certain of its other Canadian subsidiaries obtained creditor protection under the Companies Creditors Arrangement Act in Canada. Additionally, certain of Nortel's U.S. subsidiaries, including Nortel Networks Inc. and Nortel Networks Capital Corporation, have filed voluntary petitions in the United States under Chapter 11 (reorganization) of the U.S. Bankruptcy Code, and certain of Nortel's other subsidiaries made similar filings in other jurisdictions.

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Nortel is operating under these protections and is pursuing sales of portions of its operations and assets to various parties. In the event that Nortel or the successor acquirers of its assets and operations are not able to continue to provide equipment and services, TDS believes that it will be able to purchase similar network equipment, business communications systems and technical support from other suppliers and, therefore, TDS does not believe Nortel's reorganization and the sale of Nortel's assets and operations to other entities will have a significant impact on TDS day-to-day operations. However, the following could adversely impact TDS' future results of operations and cash flows:

- Reduced competition among telecommunications equipment suppliers could increase the future costs to acquire such equipment;
- Replacement and upgrades of Nortel equipment with equipment from other vendors could be more costly;
- The potential lack of future upgrades or enhancements to Nortel equipment could reduce the useful life of such equipment, and result in accelerated depreciation charges; and
- Maintenance of Nortel equipment could be more costly.

Acquisitions, Exchanges and Divestitures

TDS assesses its existing wireless and wireline interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on investment. As part of this strategy, TDS reviews attractive opportunities to acquire additional wireless operating markets, telecommunications companies and wireless spectrum. In addition, TDS may seek to divest outright or include in exchanges for other wireless interests those wireless interests that are not strategic to its long-term success. TDS also from time to time may be engaged in negotiations relating to the acquisition, divestiture or exchange of companies, strategic properties or wireless spectrum. In general, TDS may not disclose such transactions until there is a definitive agreement. See Note 8 Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information regarding pending transactions.

Variable Interest Entities

TDS consolidates certain variable interest entities pursuant to FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. See Note 6 Variable Interest Entities in the Notes to Consolidated Financial Statements for the details of these variable interest entities. TDS may elect to make additional capital contributions and/or advances to these variable interest entities in future periods in order to fund their operations.

Share Repurchase Programs

TDS and U.S. Cellular have repurchased and expect to continue to repurchase their Special Common Shares (TDS only) and Common Shares, subject to repurchase programs. For details of these programs and repurchases made during 2009 and 2008, see Note 14 TDS and U.S. Cellular Share Repurchases in the Notes to Consolidated Financial Statements.

Contractual and Other Obligations

The Contractual and Other Obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in TDS Form 10-K for the year ended December 31, 2008 did not include any liabilities related to unrecognized tax benefits under FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). TDS is unable to predict the period of settlement of such FIN 48 liabilities. Subject to the foregoing, there has been no material change in Contractual and Other Obligations between December 31, 2008 and June 30, 2009.

Off-Balance Sheet Arrangements

TDS has no transactions, agreements or contractual arrangements with unconsolidated entities involving off-balance sheet arrangements, as defined by SEC rules, that have or are reasonably likely to have a material current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, cash flows from operating activities, liquidity, capital resources or financial flexibility.

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Accounts Receivable and Allowance for Doubtful Accounts

U.S. Cellular's accounts receivable consist primarily of amounts owed by customers pursuant to service contracts and for equipment sales, by agents for equipment sales, by other wireless carriers whose customers have used U.S. Cellular's wireless systems for roaming and by unaffiliated third-party partnerships or corporations pursuant to equity distribution declarations.

U.S. Cellular assesses its accounts receivable for collectability on an ongoing basis. The allowance for doubtful accounts is the best estimate of the amount of probable credit losses related to existing accounts receivable. The allowance is estimated based on historical experience and other factors, such as general economic and consumer market conditions, which could affect collectability. Accounts receivable balances are reviewed for collectability on either an aggregate or individual basis depending on the type of receivable. When it is probable that an account balance will not be collected, the account balance is charged against the allowance for doubtful accounts. U.S. Cellular's bad debts expense was 2.1% and 1.7% of related revenues for the six month periods ended June 30, 2009 and 2008, respectively.

TDS Telecom's accounts receivable primarily consist of amounts owed by customers for services provided, by connecting companies for carrying interstate and intrastate long-distance traffic on its network and by interstate and intrastate revenue pools that distribute funds collected from access charges. There has been no significant change in TDS Telecom's bad debts expense as a percentage of the related revenues.

Insurance

TDS has several commercial property and casualty insurance policies with a variety of subsidiary companies of American International Group, Inc. (AIG). These companies operate under the insurance regulations of various states including New York, Pennsylvania and Delaware. TDS has inquired into the ability of these AIG companies to meet their obligations in the event of a claim against these policies and has received assurance from AIG and TDS' insurance brokers that the companies remain able to meet these obligations. State insurance regulators and the rating agencies have issued press releases indicating the same. TDS did not have any significant property and casualty claims outstanding with these companies as of June 30, 2009. TDS continues to monitor the financial condition of other insurance providers.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

TDS prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). TDS' significant accounting policies are discussed in detail in Note 2 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements and TDS' Application of Critical Accounting Policies and Estimates is discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations, both included in TDS' Form 10-K for the year ended December 31, 2008.

Since the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), TDS' annual impairment review of goodwill and indefinite-lived intangible assets has been completed in the second quarter of each year. Effective April 1, 2009, TDS adopted a new accounting policy whereby its annual impairment review of goodwill and indefinite-lived intangible assets will be performed as of November 1 instead of

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the second quarter of each year. As indicated above, an impairment analysis of goodwill and indefinite-lived intangible assets was last completed as of December 31, 2008. The change in the annual goodwill and indefinite-lived intangible asset impairment testing date was made to better align the annual impairment test with the timing of TDS' annual strategic planning process, which allows for a better estimate of the future cash flows used in discounted cash flow models to test for impairment. This change in accounting policy does not delay, accelerate or avoid an impairment charge. Accordingly, TDS management believes that this accounting change is preferable under the circumstances.

See Note 3 Noncontrolling Interests in the Notes to Consolidated Financial Statements for information related to TDS' adoption of SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*.

Other than disclosed above, there were no material changes to TDS' significant accounting policies or application of critical accounting policies during the six months ended June 30, 2009.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On May 29, 2009, TDS repurchased 1,730,200 Special Common Shares at the then current market price on the New York Stock Exchange (NYSE) for a total price of \$48.2 million, or an average of \$27.89 per Special Common Share including broker fees, from an affiliate of Southeastern Asset Management, Inc. (SEAM). In addition, on July 20, 2009, TDS repurchased 405,000 Special Common Shares from SEAM at a price below the then current market price on the NYSE for a total price of \$10.5 million, or an average of \$25.87 per Special Common Share including broker fees. SEAM is a shareholder of more than 5% of TDS Special Common Shares and Common Shares. See Security Ownership by Certain Beneficial Owners in TDS Notice of Annual Meeting and Proxy Statement filed with the SEC on April 28, 2009 for further information about SEAM and its interest in TDS. These transactions were not solicited by TDS and TDS did not enter into any agreements with SEAM. The May 29, 2009 transaction was effected by TDS broker pursuant to TDS existing institutional brokerage account agreement on the NYSE in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended (Exchange Act). The July 20, 2009 transaction was made by TDS broker pursuant an agreement entered into pursuant to Rule 10b5-1 under the Exchange Act and was effected on the NYSE in compliance with Rule 10b-18. The repurchases were made under TDS existing share repurchase authorization.

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

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PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

SAFE HARBOR CAUTIONARY STATEMENT

This Form 10-Q, including exhibits, contains statements that are not based on historical facts and represent forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, that address activities, events or developments that TDS intends, expects, projects, believes, estimates, plans or anticipates will or may occur in the future are forward-looking statements. The words believes, anticipates, estimates, expects, plans, intends, projects and similar expressions are intended to identify these forward-looking statements, but are not the exclusive means of identifying them. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include those set forth below, as more fully discussed under Risk Factors in TDS Form 10-K for the year ended December 31, 2008. However, such factors are not necessarily all of the important factors that could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the forward-looking statements contained in this document. Other unknown or unpredictable factors also could have material adverse effects on future results, performance or achievements. TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. You should carefully consider the Risk Factors in TDS Form 10-K for the year ended December 31, 2008, the following factors and other information contained in, or incorporated by reference into, this Form 10-Q to understand the material risks relating to TDS business.

- *Intense competition in the markets in which TDS operates could adversely affect TDS revenues or increase its costs to compete.*
- *A failure by TDS service offerings to meet customer expectations could limit TDS ability to attract and retain customers and could have an adverse effect on TDS operations.*
- *TDS system infrastructure may not be capable of supporting changes in technologies and services expected by customers, which could result in lost customers and revenues.*
- *An inability to obtain or maintain roaming arrangements with other carriers on terms that are acceptable to TDS could have an adverse effect on TDS business, financial condition or results of operations.*
- *TDS currently receives a significant amount of roaming revenues from its wireless business. As a result of recent acquisitions by other companies in the wireless industry, TDS roaming revenues have declined. TDS anticipates that this trend will increase over the next several quarters. Further industry consolidation and continued build outs by existing and new wireless carriers could cause roaming revenues to decline even more, which would have an adverse effect on TDS business, financial condition and results of operations.*

- *A failure by TDS to obtain access to adequate radio spectrum could have an adverse effect on TDS business and operations.*
- *To the extent conducted by the FCC, TDS is likely to participate in FCC auctions of additional spectrum in the future as an applicant or as a non-controlling partner in another auction applicant and, during certain periods, will be subject to the FCC's anti-collusion rules, which could have an adverse effect on TDS.*
- *An inability to attract and/or retain management, technical, sales and other personnel could have an adverse effect on TDS' business, financial condition or results of operations.*
- *TDS' assets are concentrated in the U.S. telecommunications industry. As a result, its results of operations may fluctuate based on factors related entirely to conditions in this industry.*
- *The completion of acquisitions has led to increased consolidation in the wireless telecommunications industry. TDS' lower scale relative to larger wireless carriers has in the past and could in the future prevent or delay its access to new products including handsets, new technology and/or new content and applications which could adversely affect TDS' ability to attract and retain customers and, as a result, could adversely affect its business, financial condition or results of operations.*

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- *Inability to manage its supply chain or inventory successfully could have an adverse effect on TDS business, financial condition or results of operations.*
- *Changes in general economic and business conditions, both nationally and in the markets in which TDS operates, could have an adverse effect on TDS business, financial condition or results of operations.*
- *Changes in various business factors could have an adverse effect on TDS business, financial condition or results of operations.*
- *Advances or changes in telecommunications technology, such as Voice over Internet Protocol (VoIP), High-Speed Packet Access, WiMAX or Long-Term Evolution (LTE), could render certain technologies used by TDS obsolete, could reduce TDS revenues or could increase its costs of doing business.*
- *Changes in TDS enterprise value, changes in the market supply or demand for wireless licenses or wireline markets, adverse developments in the business or the industry in which TDS is involved and/or other factors could require TDS to recognize impairments in the carrying value of its license costs, goodwill and/or physical assets.*
- *Costs, integration problems or other factors associated with acquisitions/divestitures of properties or licenses and/or expansion of TDS business could have an adverse effect on TDS business, financial condition or results of operations.*
- *A significant portion of TDS wireless revenues is derived from customers who buy services through independent agents who market TDS services on a commission basis. If TDS relationships with these agents are seriously harmed, its wireless revenues could be adversely affected.*
- *TDS investments in technologies which are unproven or for which success has not yet been demonstrated may not produce the benefits that TDS expects.*
- *A failure by TDS to complete significant network construction and systems implementation activities as part of its plans to improve the quality, coverage, capabilities and capacity of its network and support systems could have an adverse effect on its operations.*

- *Financial difficulties (including bankruptcy proceedings) of TDS key suppliers or vendors, termination or impairment of TDS relationships with such suppliers or vendors, or a failure by TDS to manage its supply chain effectively could result in delays or termination of TDS receipt of required equipment or services, or could result in excess quantities of required equipment or services, any of which could adversely affect TDS business, financial condition or results of operations.*
- *TDS has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on TDS financial condition or results of operations.*
- *A material disruption in TDS telecommunication networks or information technology, including breaches of network or information technology security, could have an adverse effect on TDS business, financial condition or results of operations.*
- *Wars, conflicts, hostilities and/or terrorist attacks or equipment failures, power outages, natural disasters or other events could have an adverse effect on TDS business, financial condition or results of operations.*
- *The market prices of TDS Common Shares and Special Common Shares are subject to fluctuations due to a variety of factors.*
- *Changes in interpretations of accounting requirements, changes in industry practice, identification of errors or changes in management assumptions could require amendments to or restatements of financial information or disclosures included in this or prior filings with the SEC.*
- *Restatements of financial statements by TDS and related matters, including resulting delays in filing periodic reports with the SEC, could have an adverse effect on TDS business, financial condition or results of operations.*

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- *The existence of material weaknesses in the effectiveness of internal control over financial reporting could result in inaccurate financial statements or other disclosures or failure to prevent fraud, which could have an adverse effect on TDS' business, financial condition or results of operations.*
- *Changes in facts or circumstances, including new or additional information that affects the calculation of potential liabilities for contingent obligations under guarantees, indemnities or otherwise, could require TDS to record charges in excess of amounts accrued in the financial statements, if any, which could have an adverse effect on TDS' financial condition or results of operations.*
- *Early redemptions or repurchases of debt, issuances of debt, changes in operating leases, changes in purchase obligations or other factors or developments could cause the amounts reported under Contractual Obligations in TDS' Management's Discussion and Analysis of Financial Condition and Results of Operations to be different from the amounts actually incurred.*
- *An increase in the amount of TDS' debt in the future could subject TDS to higher interest costs and restrictions on its financing, investing and operating activities and could decrease its net income and cash flows.*
- *Recent market events and conditions, including disruption in credit and other financial markets and the deterioration of U.S. and global economic conditions, could, among other things, impede TDS' access to or increase the cost of financing its operating and investment activities and/or result in reduced revenues and lower operating income and cash flows, which would have an adverse effect on TDS' financial condition or results of operations.*
- *Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions, changes in TDS' credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development or acquisition programs.*
- *Changes in the regulatory environment or a failure by TDS to timely or fully comply with any applicable regulatory requirements could adversely affect TDS' financial condition, results of operations or ability to do business.*
- *Changes in USF funding and/or intercarrier compensation could have a material adverse impact on TDS' financial position or results of operations.*

- *Changes in income tax rates, laws, regulations or rulings, or federal or state tax assessments could have an adverse effect on TDS financial condition or results of operations.*
- *Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on TDS financial condition, results of operations or ability to do business.*
- *The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from handsets, wireless data devices and/or cell sites cause harmful health consequences, including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on TDS wireless business, financial condition or results of operations.*
- *Claims of infringement of intellectual property and proprietary rights of others, primarily involving patent infringement claims, could prevent TDS from using necessary technology to provide services or subject TDS to expensive intellectual property litigation or monetary penalties, which could have an adverse effect on TDS business, financial condition or results of operations.*
- *Certain matters, such as control by the TDS Voting Trust and provisions in the TDS Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of TDS.*

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- *A failure by TDS to successfully execute its business strategy could have an adverse effect on TDS' business, financial condition or results of operations.*

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

Long-term Debt

As of June 30, 2009, TDS' long-term debt was in the form of fixed-rate notes with original maturities ranging up to 40 years. Fluctuations in market interest rates can lead to significant fluctuations in the fair value of these long-term notes.

See Note 4 - Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information related to the fair market value of TDS' long-term debt as of June 30, 2009.

Refer to the disclosure under Market Risk - Long-Term Debt in TDS' Form 10-K for the year ended December 31, 2008, for additional information regarding required principal payments and the weighted average interest rates related to TDS' long-term debt.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

TDS maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to TDS' management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rule 13a-15(b), TDS carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of TDS' disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that TDS' disclosure controls and procedures were effective as of June 30, 2009.

Changes in Internal Control Over Financial Reporting

There were no changes in TDS' internal control over financial reporting during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect TDS' internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings.

The United States Department of Justice (DOJ) has notified TDS and U.S. Cellular, a subsidiary of TDS, that each is a named defendant in a civil action brought by a private party in the U.S. District Court for the District of Columbia under the qui tam provisions of the federal False Claims Act. TDS and U.S. Cellular were advised that the complaint seeks return of approximately \$165 million of bid credits from certain FCC auctions and requests treble damages. The complaint remains under seal pending the DOJ s consideration as to whether to intervene in the proceeding. The DOJ has not yet made any decision as to whether it will intervene. However, as a result of the complaint, the DOJ is investigating TDS and U.S. Cellular s participation in certain spectrum auctions conducted by the FCC between 2005 and 2008, through Carroll Wireless, L.P., Barat Wireless, L.P., and King Street Wireless, L.P. These limited partnerships were winning bidders in Auction 58, Auction 66 and Auction 73, respectively, and received a 25% bid credit in the applicable auction price under FCC rules. The DOJ is investigating whether these limited partnerships qualified for the 25% bid credit in auction price considering their arrangements with TDS and U.S. Cellular. TDS and U.S. Cellular are cooperating with the DOJ s review. TDS and U.S. Cellular believe that U.S. Cellular s arrangements with these limited partnerships and the limited partnerships participation in the FCC auctions complied with applicable law and FCC rules and each of TDS and U.S. Cellular intends to vigorously defend itself against any claim that it violated applicable law or FCC rules. At this time, TDS cannot predict the outcome of this review or any proceeding. The FCC sent a letter to King Street Wireless, L.P. requesting that it submit to the FCC a written response to the allegations in the complaint. King Street Wireless, L.P. made this submission as requested by the FCC.

TDS is involved or may be involved from time to time in legal proceedings before the FCC, other regulatory authorities, and/or various state and federal courts. If TDS believes that a loss arising from such legal proceedings is probable and can be reasonably estimated, an amount is accrued in the financial statements for the estimated loss. If only a range of loss can be determined, the best estimate within that range is accrued; if none of the estimates within that range is better than another, the low end of the range is accrued. The assessment of the expected outcomes of legal proceedings is a highly subjective process that requires judgments about future events. The legal proceedings are reviewed at least quarterly to determine the adequacy of accruals and related financial statement disclosures. The ultimate outcomes of legal proceedings could differ materially from amounts accrued in the financial statements.

Item 1A. Risk Factors.

In addition to the information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in TDS Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect TDS business, financial condition or future results. The risks described in this Form 10-Q and in TDS Annual Report on Form 10-K may not be the only risks that affect TDS. Additional unidentified or unrecognized risks and uncertainties may materially adversely affect TDS business, financial condition and/or operating results. Subject to the foregoing, TDS has not identified for disclosure any material changes to the risk factors as previously disclosed in TDS Annual Report on Form 10-K for the year ended December 31, 2008, except that the following risk factor in such Form 10-K is hereby updated as follows:

Financial difficulties (including bankruptcy proceedings) of TDS key suppliers or vendors, termination or impairment of TDS relationships with such suppliers or vendors, or a failure by TDS to manage its supply chain effectively could result in delays or termination of TDS receipt of required equipment or services, or could result in excess quantities of required equipment or services, any of which could adversely affect TDS business, financial condition or results of operations.

TDS depends upon certain vendors to provide it with equipment, services or content to continue its network construction and upgrade and to operate its business. TDS does not have operational or financial control over such key suppliers and has limited influence with respect to the manner in which these key suppliers conduct their businesses. As a result of recent economic conditions, many companies, including certain TDS suppliers, are facing financial difficulties and/or bankruptcy. If these key suppliers experience financial difficulties or file for bankruptcy they may be unable to provide equipment, services or content to TDS on a timely basis or cease to provide such equipment, services or content or otherwise fail to honor their obligations to TDS. In such case, TDS may be unable to maintain and upgrade its network or provide services to its customers in a competitive manner, or could suffer other disruptions to its business. In that event, TDS' business, financial condition or results of operations could be adversely affected.

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In January 2009, Nortel Networks Corporation (Nortel), a key supplier of network equipment, business communications systems, and technical support for TDS, announced that it, Nortel Networks Limited and certain of its other Canadian subsidiaries obtained creditor protection under the Companies Creditors Arrangement Act in Canada. Additionally, certain of Nortel's U.S. subsidiaries, including Nortel Networks Inc. and Nortel Networks Capital Corporation, have filed voluntary petitions in the United States under Chapter 11 (reorganization) of the U.S. Bankruptcy Code, and certain of Nortel's other subsidiaries made similar filings in other jurisdictions.

Nortel is operating under these protections and is pursuing sales of portions of its operations and assets to various parties. In the event that Nortel or the successor acquirers of its assets and operations are not able to continue to provide equipment and services, TDS believes that it will be able to purchase similar network equipment, business communications systems and technical support from other suppliers and, therefore, TDS does not believe Nortel's reorganization and the sale of Nortel's assets and operations to other entities will have a significant impact on TDS day-to-day operations. However, the following could adversely impact TDS' future results of operations and cash flows:

- Reduced competition among telecommunications equipment suppliers could increase the future costs to acquire such equipment;
- Replacement and upgrades of Nortel equipment with equipment from other vendors could be more costly;
- The potential lack of future upgrades or enhancements to Nortel equipment could reduce the useful life of such equipment, and result in accelerated depreciation charges; and
- Maintenance of Nortel equipment could be more costly.

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

In November 2008, TDS completed the authorization made in 2007 for the repurchase of up to \$250 million in aggregate purchase price of TDS Special Common Shares. On November 3, 2008, the Board of Directors of TDS authorized a new \$250 million stock repurchase program for both TDS Common and Special Common shares. Depending on market conditions, such shares may be repurchased in compliance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended (Exchange Act), pursuant to Rule 10b5-1 under the Exchange Act, or pursuant to accelerated share repurchase arrangements, prepaid share repurchases, private transactions or as otherwise authorized. This authorization will expire in November 2011.

During the six months ended June 30, 2009, TDS repurchased 3,188,293 Special Common Shares for \$86.0 million, or an average of \$26.98 per Special Common Share pursuant to the current authorization. TDS did not repurchase any TDS Common Shares during the same period.

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The following table provides certain information with respect to all purchases made by or on behalf of TDS, and any open market purchases made by any affiliated purchaser (as defined by the SEC) of TDS, of TDS Special Common Shares during the quarter covered by this Form 10-Q.

TDS PURCHASES OF COMMON SHARES AND SPECIAL COMMON SHARES

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|--|---|--|--|--|
| April 1 30, 2009 | | | | |
| Common | | \$ | | |
| Special Common | 351,605 | 24.85 | 351,605 | |
| Total | 351,605 | 24.85 | 351,605 | \$ 152,911,792 |
| May 1 31, 2009 | | | | |
| Common | | | | |
| Special Common | 1,980,591 | 27.91 | 1,980,591 | |
| Total | 1,980,591 | 27.91 | 1,980,591 | 97,630,914 |
| June 1 30, 2009 | | | | |
| Common | | | | |
| Special Common | 352,071 | 28.19 | 352,071 | |
| Total | 352,071 | 28.19 | 352,071 | 87,706,940 |
| Total for or as of end of the quarter ended June 30, 2009 | | | | |
| Common | | | | |
| Special Common | 2,684,267 | 27.55 | 2,684,267 | |
| Total | 2,684,267 | \$ 27.55 | 2,684,267 | \$ 87,706,940 |

The following is additional information with respect to the Common and Special Common Shares authorization:

- i. The date the program was announced was November 5, 2008 by Form 8-K.
- ii. The amount originally approved was up to \$250 million in aggregate purchase price of TDS Common and Special Common Shares.
- iii. The original expiration date for the program is November 3, 2011.
- iv. The Common and Special Common Shares authorization did not expire during the second quarter of 2009.

v. TDS did not determine to terminate the foregoing Common and Special Common Shares repurchase program prior to expiration, or cease making further purchases thereunder, during the second quarter of 2009.

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At the Annual Meeting of Shareholders of TDS held on May 21, 2009, the following number of votes were cast for the matters indicated:

1. Election of Directors:

a. For the election of eight Directors of the Company by the holders of Series A Common Shares and Preferred Shares:

| Nominee | For | Withhold | Broker Non-vote | Outcome |
|--------------------------|------------|----------|--------------------|---------|
| LeRoy T. Carlson, Jr. | 64,575,626 | 15 | | Elected |
| Letitia G. Carlson, M.D. | 64,468,041 | 107,600 | | Elected |
| Prudence E. Carlson | 64,468,041 | 107,600 | | Elected |
| Walter C.D. Carlson | 64,575,626 | 15 | | Elected |
| Kenneth R. Meyers | 63,887,566 | 688,075 | | Elected |
| Donald C. Nebergall | 64,468,041 | 107,600 | | Elected |
| George W. Off | 63,787,566 | 788,075 | | Elected |
| Mitchell H. Saranow | 63,887,566 | 688,075 | | Elected |

b. For the election of four Directors of the Company by the holders of Common Shares and Special Common Shares:

| Nominee | For | Withhold | Broker Non-vote | Outcome |
|------------------------|------------|------------|--------------------|---------|
| Clarence A. Davis | 92,889,330 | 5,852,670 | | Elected |
| Christopher D. O Leary | 68,505,470 | 30,236,530 | | Elected |
| Gary L. Sugarman | 92,751,130 | 5,990,870 | | Elected |
| Herbert S. Wander | 82,106,313 | 16,635,687 | | Elected |

2. Proposal to Approve the Amended Non-Employee Director Compensation Plan by the holders of Series A Common Shares, Preferred Shares and Common Shares:

| For | Against | Abstain | Broker Non-vote | Outcome |
|-------------|-----------|---------|--------------------|----------|
| 106,193,980 | 2,189,938 | 475,416 | 2,745,119 | Approved |

3. Proposal to Ratify the Selection of PricewaterhouseCoopers LLP as Independent Public Accountants for 2009 by the holders of Series A Common Shares, Preferred Shares and Common Shares:

| For | Against | Abstain | Broker Non-vote | Outcome |
|-------------|----------------|----------------|----------------------------|----------------|
| 110,986,323 | 580,374 | 37,756 | | Approved |

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4. Proposal by Shareholder to Recapitalize the TDS Capital Stock by the holders of Series A Common Shares, Preferred Shares and Common Shares:

| Against | For | Abstain | Broker Non-vote | Outcome |
|------------|------------|---------|--------------------|----------|
| 71,114,801 | 37,531,220 | 213,313 | 2,745,119 | Defeated |

A description of the terms of a settlement agreement between TDS and GAMCO Asset Management, Inc. terminating a solicitation subject to Rule 14a-12(c), including the cost to TDS, is included in TDS proxy statement for the Annual Meeting, which was filed with the SEC on April 28, 2009.

Item 5. Other Information.

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

Neither TDS nor U.S. Cellular borrowed or repaid any amounts under their revolving credit facilities in the second quarter of 2009 and had no borrowings outstanding under their revolving credit facilities as of June 30, 2009. TDS and U.S. Cellular entered into new revolving credit facilities on June 30, 2009 and terminated their prior revolving credit facilities at that time.

A description of TDS new revolving credit facility is included under Item 1.01 in TDS Current Report on Form 8-K dated June 30, 2009 and is incorporated by reference herein. A description of the termination of the prior TDS revolving credit facility is set forth in Item 1.02 of such Form 8-K and is incorporated by reference herein.

A description of U.S. Cellular's new revolving credit facility is included under Item 1.01 in U.S. Cellular's Current Report on Form 8-K dated June 30, 2009 and is incorporated by reference herein. A description of the termination of the prior U.S. Cellular revolving credit facility is set forth in Item 1.02 of such Form 8-K and is incorporated by reference herein.

b. The following information is being provided to update prior disclosures made pursuant to the requirements of Form 8-K, Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements for Certain Officers.

On May 21, 2009, shareholders of TDS approved the TDS Compensation Plan for Non-Employee Directors. A description of this plan is set forth in TDS Notice of Annual Meeting and Proxy Statement as filed with the SEC on April 28, 2009 and is incorporated herein.

On May 19, 2009, shareholders of U.S. Cellular approved the U.S. Cellular 2005 Long Term Incentive Plan, as amended. John E. Rooney, one of the named executive officers of TDS, participates in such plan. A description of this plan is set forth in U.S. Cellular's Notice of Annual Meeting and Proxy Statement as filed with the SEC on April 15, 2009 and is incorporated by reference herein.

Item 6. Exhibits

Exhibit 4.1 \$400,000,000 Credit Agreement dated June 30, 2009 among TDS and the lenders and other parties identified therein is hereby incorporated by reference from Exhibit 4.1 to TDS' Current Report on Form 8-K dated June 30, 2009.

Exhibit 4.2 - \$300,000,000 Credit Agreement dated June 30, 2009 among U.S. Cellular and the lenders and other parties identified therein is hereby incorporated by reference from Exhibit 4.1 to U.S. Cellular's Current Report on Form 8-K dated June 30, 2009.

Exhibit 10.1 TDS Compensation Plan for Non-Employee Directors, as amended January 20, 2009, is hereby incorporated by reference to Exhibit A to TDS' Notice of Annual Meeting of Shareholders and Proxy Statement dated April 28, 2009.

Exhibit 10.2 U.S. Cellular 2005 Long-Term Incentive Plan, as amended, is hereby incorporated by reference to Exhibit C to U.S. Cellular's Notice of Annual Meeting of Shareholders and Proxy Statement dated April 15, 2009.

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Exhibit 10.3 Guidelines and Procedures for TDS Officer Bonuses, as amended, is hereby incorporated by reference from Exhibit 10.3 to TDS Quarterly Report on Form 10-Q for the period ended March 31, 2009.

Exhibit 10.4 Settlement Agreement dated April 24, 2009 between TDS and GAMCO, is hereby incorporated by reference to exhibit 10.1 to TDS Current Report on Form 8-K dated April 24, 2009.

Exhibit 11 Computation of Earnings per share is included herein as Note 7 Earnings per Share in the Notes to Consolidated Financial Statements.

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

Exhibit 18 Preferability letter from Independent Registered Public Accounting Firm.

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

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

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

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

The foregoing exhibits include only the exhibits that relate specifically to this Form 10-Q or that supplement the exhibits identified in TDS Form 10-K for the year ended December 31, 2008. Reference is made to TDS Form 10-K for the year ended December 31, 2008 for a complete list of exhibits, which are incorporated herein except to the extent supplemented or superseded above.

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SIGNATURES

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

TELEPHONE AND DATA SYSTEMS, INC.

(Registrant)

Date: August 6, 2009

/s/ LeRoy T. Carlson, Jr.
LeRoy T. Carlson, Jr.,
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 6, 2009

/s/ Kenneth R. Meyers
Kenneth R. Meyers,
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: August 6, 2009

/s/ Douglas D. Shuma
Douglas D. Shuma,
Senior Vice President and
Corporate Controller
(Principal Accounting Officer)

Signature page for the TDS 2009 Second Quarter Form 10-Q