UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **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

☐ **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)

Delaware	**36-2669023**
(State or other jurisdiction of incorporation or organization)	(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 ☐ (Do not check if a smaller reporting company)	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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Part I. Financial Information
Item 1. Financial Statements

Telephone and Data Systems, Inc.

Consolidated Statement of Operations
(Unaudited)

	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
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
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

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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									Non redeemable Preferred Shares	Non controlling Interests	Total Equity
	Common Shares	Special Common Shares	Series A Common Shares	Capital in Excess of Par Value	Treasury Common Shares	Treasury Special Common Shares	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity			
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)

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)

	TDS Shareholders											
(Dollars in thousands)	**Common Shares**	**Special Common Shares**	**Series A Common Shares**	**Capital in Excess of Par Value**	**Treasury Common Shares**	**Treasury Special Common Shares**	**Accumulated Other Comprehensive Income**	**Retained Earnings**	**Total Shareholders' Equity**	**Non redeemable Preferred Shares**	**Non controlling Interests**	**Total Equity**
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 compensation plans	—	—	—	3,068	—	—	—	—	3,068	—	(4,164)	(1,096)
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.

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

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 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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4. Fair Value Measurements

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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7. Earnings per Share

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.

	U.S. Cellular(1)	TDS Telecom	Total
		(Dollars in thousands)	
Licenses			
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	Non-reportable segment(3)	Total
		(Dollars in thousands)		
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 purchases 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.

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

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.

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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 ILEC	TDS Telecom CLEC	Non-Reportable Segment(1)	Other Reconciling Items(2)	Total
	(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 ILEC	TDS Telecom CLEC	Non-Reportable Segment(1)	Other Reconciling Items(2)	Total
	(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 ILEC	TDS Telecom CLEC	Non-Reportable Segment(1)	Other Reconciling Items(2)	Total
	(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

Six Months Ended or as of June 30, 2008	U.S. Cellular	TDS Telecom ILEC	TDS Telecom CLEC	Non-Reportable Segment(1)	Other Reconciling Items(2)	Total
	(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.

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	Six Months Ended June 30, 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.