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TELEPHONE & DATA SYSTEMS INC /DE/
Form 424B3
August 07, 2008

Filed Pursuant to Rule 424(b)(3)

Registration Nos. 033-08857-99

033-59435-99

333-125001

PROSPECTUS SUPPLEMENT

to

PROSPECTUS DATED MARCH 12, 2008

The attached quarterly report on Form 10-Q for the period ended June 30, 2008 was filed by the registrant with the Securities and Exchange Commission, and should be read in conjunction with the Prospectus dated March 12, 2008.

The date of this Prospectus Supplement is August 7, 2008

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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, 2008**

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)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

30 North LaSalle Street, Chicago, Illinois

60602

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(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

(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, 2008
Common Shares, \$.01 par value	53,193,983 Shares
Special Common Shares, \$.01 par value	56,249,536 Shares
Series A Common Shares, \$.01 par value	6,451,896 Shares

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Telephone and Data Systems, Inc.

Quarterly Report on Form 10-Q

For the Period Ended June 30, 2008

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Signatures

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars and shares in thousands, except per share amounts)			
Operating Revenues	\$ 1,274,351	\$ 1,192,834	\$ 2,523,452	\$ 2,349,391
Operating Expenses				
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	452,845	412,507	895,228	814,540
Selling, general and administrative expense	477,299	435,843	940,598	856,261
Depreciation, amortization and accretion expense	188,026	187,697	374,184	375,701
Loss on asset disposals, net	6,438	2,832	10,090	6,137
Total Operating Expenses	1,124,608	1,038,879	2,220,100	2,052,639
Operating Income	149,743	153,955	303,352	296,752
Investment and Other Income (Expense)				
Equity in earnings of unconsolidated entities	22,909	23,875	44,379	47,571
Interest and dividend income	17,455	147,768	27,201	163,964
Interest expense	(35,570)	(55,245)	(76,950)	(113,046)
Gain (loss) on investments and financial instruments	3,088	(220,199)	(402)	35,671
Other, net	1,902	(1,868)	1,703	(4,092)
Total Investment and Other Income (Expense)	9,784	(105,669)	(4,069)	130,068
Income Before Income Taxes and Minority Interest	159,527	48,286	299,283	426,820
Income tax expense	53,261	26,700	102,512	167,938
Income Before Minority Interest	106,266	21,586	196,771	258,882
Minority share of income, net of tax	(18,509)	(30,213)	(35,527)	(48,184)
Net Income (Loss)	87,757	(8,627)	161,244	210,698
Preferred dividend requirement	(13)	(13)	(26)	(26)
Net Income (Loss) Available To Common	\$ 87,744	\$ (8,640)	\$ 161,218	\$ 210,672
Basic Weighted Average Shares Outstanding	116,267	117,031	116,919	116,935
Basic Earnings (Loss) Per Share (Note 7)	\$ 0.75	\$ (0.07)	\$ 1.38	\$ 1.80
Diluted Weighted Average Shares Outstanding	116,814	117,031	117,500	118,432
Diluted Earnings (Loss) Per Share (Note 7)	\$ 0.75	\$ (0.08)	\$ 1.37	\$ 1.76
Dividends Per Share	\$ 0.1025	\$ 0.0975	\$ 0.2050	\$ 0.195

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

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Telephone and Data Systems, Inc.

Consolidated Statements of Cash FlowsUnaudited

	Six Months Ended June 30,	
	2008	2007
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income	\$ 161,244	\$ 210,698
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	374,184	375,701
Bad debts expense	36,806	26,991
Stock-based compensation expense	9,022	10,879
Deferred income taxes	(316,269)	(61,814)
(Gain) loss on investments and financial instruments	402	(35,671)
Equity in earnings of unconsolidated entities	(44,379)	(47,571)
Distributions from unconsolidated entities	45,810	43,435
Minority share of income	35,527	48,184
Loss on asset disposals, net	10,090	6,137
Noncash interest expense	7,930	10,635
Other noncash expense	247	1,788
Excess tax benefit from stock awards	(1,706)	(17,598)
Other operating activities	(2,350)	(5,000)
Changes in assets and liabilities		
Change in accounts receivable	(59,440)	(43,884)
Change in inventory	(20,830)	(1,213)
Change in accounts payable	(4,171)	(5,792)
Change in customer deposits and deferred revenues	10,303	19,469
Change in accrued taxes	304,231	128,672
Change in accrued interest	(3,780)	(712)
Change in other assets and liabilities	(47,432)	(44,784)
	495,439	618,550
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(299,061)	(304,559)
Cash paid for acquisitions	(334,350)	(20,569)
Cash received from divestitures	6,838	4,277
Proceeds from sale of investments	226,644	10,547
Cash paid to settle derivative liabilities	(17,404)	
Other investing activities	(934)	(242)
	(418,267)	(310,546)
Cash Flows from Financing Activities		
Issuance of notes payable	100,000	25,000
Issuance of long-term debt		2,857
Repayment of notes payable	(50,000)	(60,000)
Repayment of variable prepaid forward contracts	(47,357)	
Repayment of long-term debt	(6,442)	(1,679)
TDS Common Shares and Special Common Shares reissued for benefit plans, net of tax payments	1,494	74,339

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U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	(1,878)		9,223
Excess tax benefit from stock awards	1,706		17,598
Repurchase of TDS Special Common Shares	(83,013)		(7,036)
Repurchase of U.S. Cellular Common Shares	(14,516)		(49,057)
Dividends paid	(23,922)		(22,798)
Distributions to minority partners	(4,594)		(4,676)
Other financing activities	2,067		(1,869)
	(126,455)		(18,098)
Net Increase (Decrease) in Cash and Cash Equivalents	(49,283)		289,906
Cash and Cash Equivalents -			
Beginning of period		1,174,446	1,013,325
End of period	\$	1,125,163	\$ 1,303,231

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

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Telephone and Data Systems, Inc.

Consolidated Balance SheetsAssets

	June 30, 2008 (Unaudited)	December 31, 2007
	(Dollars in thousands)	
Current Assets		
Cash and cash equivalents	\$ 1,125,163	\$ 1,174,446
Accounts receivable		
Due from customers, less allowances of \$13,015 and \$16,326, respectively	386,661	379,558
Other, principally connecting companies, less allowances of \$5,297 and \$5,297, respectively	156,003	150,863
Marketable equity securities	32,020	1,917,893
Inventory	126,083	115,818
Net deferred income tax asset	22,502	
Prepaid expenses	89,455	77,155
Other current assets	32,612	59,855
	1,970,499	3,875,588
Investments		
Licenses	1,829,014	1,516,629
Goodwill	695,696	679,129
Customer lists, net of accumulated amortization of \$91,180 and \$84,190, respectively	29,069	25,851
Investments in unconsolidated entities	209,053	206,418
Other investments	11,032	11,509
	2,773,864	2,439,536
Property, Plant and Equipment		
In service and under construction	8,348,380	8,064,229
Less accumulated depreciation	4,863,167	4,539,127
	3,485,213	3,525,102
Other Assets and Deferred Charges		
	51,910	53,917
Total Assets	\$ 8,281,486	\$ 9,894,143

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

Table of Contents**Telephone and Data Systems, Inc.****Consolidated Balance Sheets****Liabilities and Stockholders Equity**

	June 30, 2008 (Unaudited)	December 31, 2007
	(Dollars in thousands)	
Current Liabilities		
Current portion of long-term debt	\$ 4,390	\$ 3,860
Forward contracts		1,005,512
Notes payable	50,000	
Accounts payable	307,572	308,882
Customer deposits and deferred revenues	176,574	166,191
Accrued interest	14,676	18,456
Accrued taxes	310,861	40,439
Accrued compensation	61,840	91,703
Derivative liability		711,692
Deferred income tax liability		327,162
Other current liabilities	122,877	125,622
	1,048,790	2,799,519
Deferred Liabilities and Credits		
Net deferred income tax liability	595,420	555,593
Asset retirement obligation	182,495	173,468
Other deferred liabilities and credits	149,726	154,602
	927,641	883,663
Long-Term Debt	1,635,147	1,632,226
Commitments and Contingencies		
Minority Interest	679,938	651,537
Preferred Shares	860	860
Common Stockholders Equity		
Common Shares, par value \$.01 per share; authorized 100,000,000 shares; issued 56,592,000 and 56,581,000 shares, respectively	566	566
Special Common Shares, par value \$.01 per share; authorized 165,000,000 shares; issued 62,951,000 and 62,946,000 shares, respectively	630	629
Series A Common Shares, par value \$.01 per share; authorized 25,000,000 shares; issued and outstanding 6,452,000 and 6,442,000 shares, respectively	65	64
Capital in excess of par value	2,055,677	2,048,110
Treasury Shares at cost:		
Common Shares, 3,398,000 and 3,433,000 shares, respectively	(118,506)	(120,544)
Special Common Shares, 6,702,000 and 4,712,000 shares, respectively	(283,682)	(204,914)
Accumulated other comprehensive income	9,546	511,776
Retained earnings	2,324,814	1,690,651
	3,989,110	3,926,338
Total Liabilities and Stockholders Equity	\$ 8,281,486	\$ 9,894,143

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 (U.S. GAAP). The consolidated financial statements include the accounts of TDS and its majority-owned subsidiaries, including TDS 80.9%-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 absorb a majority of the entity's expected gains or losses, or both. All material intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the 2008 financial statement 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 note 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, 2007 (Form 10-K).

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, 2008 and December 31, 2007, the results of operations for the three and six months ended June 30, 2008 and 2007, and the cash flows for the six months ended June 30, 2008 and 2007. The results of operations for the three and six months ended June 30, 2008 and cash flows for the six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the full year.

2. Summary of Significant Accounting Policies

Pension Plan

TDS sponsors a qualified noncontributory defined contribution pension plan. The plan provides benefits for the employees of TDS Corporate, TDS Telecom and U.S. Cellular. Under this plan, pension benefits and costs are calculated separately for each participant and are funded annually. Pension costs were \$3.9 million and \$8.6 million for the three and six months ended June 30, 2008, respectively; and \$3.6 million and \$7.1 million for the three months and six months ended June 30, 2007, respectively.

TDS also sponsors an unfunded non-qualified deferred supplemental executive retirement plan for certain employees which supplements the benefits under the qualified plan to offset the reduction of benefits caused by the limitation on annual employer contributions under the tax laws.

Other 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,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Service Cost	\$ 499	\$ 609	\$ 998	\$ 1,218
Interest on accumulated benefit obligation	863	858	1,726	1,716
Expected return on plan assets	(948)	(821)	(1,896)	(1,642)
Amortization of:				
Prior service cost	(207)	(207)	(414)	(415)
Net loss	242	340	484	681
Net postretirement cost	\$ 449	\$ 779	\$ 898	\$ 1,558

TDS did not make any contributions to the post-retirement plans in the six months ended June 30, 2008. TDS expects to make a contribution of \$3.8 million in the third quarter of 2008.

Amounts Collected from Customers and Remitted to Governmental Authorities

TDS records amounts collected from customers and remitted to governmental authorities net within a tax liability account if the tax is assessed upon the customer and TDS merely acts as an agent in collecting the tax on behalf of the imposing governmental authority. If the tax is assessed upon TDS, the amounts collected from customers as recovery of the tax are recorded in Operating revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statements of Operations. The amounts recorded gross in Operating revenues that are billed to customers and remitted to governmental authorities totaled \$40.4 million and \$77.2 million for the three and six months ended June 30, 2008, respectively; and \$38.0 million and \$68.9 million for the three and six months ended June 30, 2007, respectively.

Accounting for the Effects of Certain Types of Regulation

For the six months ended June 30, 2007, TDS Telecom's incumbent local exchange carrier (ILEC) operations followed the accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS 71). This accounting recognized the economic effects of rate-making actions of regulatory bodies in the financial statements of TDS Telecom's ILEC operations. In the third quarter of 2007, TDS Telecom discontinued the application of SFAS 71 for its ILEC operations. Therefore, TDS Telecom's ILEC operations follow the provisions of SFAS 71 for the three and six months ended June 30, 2007, and do not follow such provisions for the three and six months ended June 30, 2008. This accounting change did not have a material impact on the comparability of TDS' consolidated financial statements for these periods.

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Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures related to the use of fair value measures in financial statements. SFAS 157 does not expand the use of fair value measurements in financial statements, but standardizes its definition and guidance in U.S. GAAP. SFAS 157 emphasizes that fair value is a market-based measurement and not an entity-specific measurement, based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). SFAS 157 establishes a fair value hierarchy from observable market data as the highest level to an entity's own fair value assumptions about market participant assumptions as the lowest level. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 to defer the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until years beginning after November 15, 2008. TDS adopted SFAS 157 for its financial assets and liabilities effective January 1, 2008 (See Note 5 - Fair Value Measurements for more information related to TDS' adoption of SFAS 157 for its financial assets and liabilities). TDS is currently reviewing the adoption requirements related to its nonfinancial assets and liabilities and has not yet determined the impact, if any, on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations - a replacement of FASB Statement No. 141* (SFAS 141(R)). SFAS 141(R) replaces FASB Statement No. 141, *Business Combinations* (SFAS 141). 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 under the acquisition method, a method that requires the acquirer to measure and recognize the acquiree on an entire entity basis and recognize the assets acquired and liabilities assumed at their fair values as of the date of acquisition. However, SFAS 141(R) changes the method of applying the acquisition method in a number of significant aspects, such as requiring the expensing of transaction costs previously capitalized and requiring the accrual at fair value of certain contractual and noncontractual contingencies. SFAS 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS 141(R) amends SFAS No. 109, *Accounting for Income Taxes*, such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141(R) also would be determined in accordance with the provisions of SFAS 141(R). TDS is currently reviewing the requirements of SFAS 141(R) and has not yet determined the impact, if any, on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries - a replacement of ARB No. 51* (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, to establish new standards that will govern the accounting and reporting of (1) noncontrolling interests (commonly referred to as minority interests) in partially owned consolidated subsidiaries and (2) the loss of control of subsidiaries. SFAS 160 also 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, not as step acquisitions under SFAS 141. SFAS 160 is effective for TDS on a prospective basis beginning January 1, 2009, except for the presentation and disclosure requirements, which will be applied retrospectively. TDS is currently reviewing the requirements of SFAS 160 and has not yet determined the impact, if any, on its financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 expands the disclosure requirements for derivative instruments and hedging activities. The Statement specifically requires entities to provide enhanced disclosures addressing the following: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for TDS beginning January 1, 2009. As of June 30, 2008, TDS did not hold any derivative instruments.

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In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other applicable accounting literature. FSP FAS 142-3 is effective for TDS beginning January 1, 2009. TDS does not anticipate that the adoption of FSP FAS 142-3 will have an impact on its financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for non-governmental entities. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Presenting Fairly in Conformity with Generally Accepted Accounting Principles*. TDS does not anticipate that the adoption of SFAS 162 will have an impact on either its financial statements or disclosures.

3. 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 operating markets, telecommunications companies and wireless spectrum. In addition, TDS may seek to divest outright or include in exchanges for other wireless interests those markets and wireless interests that are not strategic to its long-term success.

Transactions Pending as of June 30, 2008:

TDS subsidiary, U.S. Cellular, participated in the Federal Communications Commission (FCC) auction of spectrum in the 700 megahertz band, known as Auction 73, indirectly through its interest in King Street Wireless, L.P. (King Street Wireless). U.S. Cellular is a limited partner in King Street Wireless. King Street Wireless qualified as a designated entity and is eligible to receive a 25% bid credit available to very small businesses, defined as businesses having annual gross revenues of less than \$15 million. As discussed in Note 4 Variable Interest Entities, TDS consolidates King Street Wireless.

The FCC released the results of Auction 73 on March 20, 2008. King Street Wireless was the provisional winning bidder for 152 licenses for an aggregate bid of \$300.5 million, net of its designated entity discount of 25%. This amount is recorded as a component of Licenses in TDS June 30, 2008 Consolidated Balance Sheet. During the six months ended June 30, 2008, U.S. Cellular made capital contributions and advances to King Street Wireless and its general partner of \$300.5 million. King Street Wireless paid this amount to the FCC for the licenses for which it was the provisional winning bidder in the auction. U.S. Cellular may agree to make additional capital contributions and/or advances to King Street Wireless and/or its general partner to provide additional funding for the development of such licenses. U.S. Cellular 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 U.S. Cellular will be able to obtain additional financing on commercially reasonable terms or at all. While the bidding in Auction 73 has ended, the FCC has awarded only a few of the licenses to winning bidders. There is no prescribed timeframe for the FCC to review the qualifications of the various winning bidders and award licenses. The licenses expected to be awarded to King Street Wireless cover areas that overlap or are proximate or contiguous to areas covered by licenses that U.S. Cellular currently owns, operates and/or consolidates.

Transactions Completed as of June 30, 2008:

On May 31, 2008, TDS Telecom acquired 100% of the outstanding shares of Mosinee Telephone Company, LLC for \$17.3 million in cash, including acquisition costs. Mosinee Telephone Company, LLC is a rural incumbent local exchange carrier serving 4,900 physical access lines in Wisconsin.

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On March 21, 2008, U.S. Cellular entered into an agreement to acquire the remaining 50% ownership interest of North Carolina RSA 1 Partnership, a wireless market operator in which U.S. Cellular had previously owned a 50% non-operating, unconsolidated interest, for \$6.9 million in cash. On May 30, 2008, U.S. Cellular completed this transaction.

In October 2006, U.S. Cellular's interest in Midwest Wireless Communications, LLC (Midwest Wireless) was sold to ALLTEL Corporation. In connection with the sale, U.S. Cellular became entitled to receive approximately \$106.0 million in cash with respect to its interest in Midwest Wireless. On January 8, 2008, U.S. Cellular received a final distribution from the escrow of \$6.3 million, plus interest of \$0.5 million. A gain and interest income of \$6.3 million and \$0.5 million, respectively, were recognized in the fourth quarter of 2007 related to this distribution.

On December 3, 2007, U.S. Cellular entered into an agreement to acquire six 12 megahertz lower C block 700 megahertz licenses in Maine for \$5.0 million in cash. On March 28, 2008, U.S. Cellular completed this transaction.

On November 30, 2007, U.S. Cellular entered into an exchange agreement with Sprint Nextel Corporation which provided for U.S. Cellular to receive personal communication service (PCS) spectrum in eight licenses covering portions of four states (Oklahoma, West Virginia, Maryland and Iowa), in exchange for U.S. Cellular delivering PCS spectrum in eight licenses covering portions of Illinois. In connection with the exchange, TDS recognized a pre-tax loss of \$20.8 million during the fourth quarter of 2007. This transaction closed on March 19, 2008.

On November 30, 2007, TDS Telecom entered into an agreement to acquire West Point Telephone Company, a telephone company in Indiana serving 750 physical access lines, for \$6.8 million in cash, including acquisition costs. On February 13, 2008, TDS Telecom completed this transaction.

TDS' acquisitions for the six months ended June 30, 2008 and the allocation of the purchase price for each respective acquisition were as follows:

(Dollars in thousands)	Purchase price (1)	Goodwill(2)	Allocation of Purchase Price		Net tangible assets/(liabilities)
			Licenses	Customer lists	
U.S. Cellular Acquisitions					
Auction 73 Licenses	\$ 300,479	\$	\$ 300,479	\$	\$
Maine Licenses	5,000		5,000		
North Carolina RSA 1 Partnership	6,900	1,632	4,180	81	1,007
Other	1,891	970	623	964	(666)
TDS Telecom Acquisitions					
Mosinee Telephone Company	17,264	9,210		4,300	3,754
West Point Telephone Company	6,757	1,956		499	4,302
Other	151	151			
Total	\$ 338,442	\$ 13,919	\$ 310,282	\$ 5,844	\$ 8,397

(1) \$2.7 million in cash was received from acquired companies and an aggregate of \$1.4 million is recorded as a component of Other current liabilities.

- (2) \$1.6 million of the goodwill is deductible for tax purposes.

Unaudited pro-forma financial information related to TDS 2008 acquisitions has not been presented because these acquisitions, individually and in the aggregate, were not material to TDS consolidated results of operations for the six months ended June 30, 2008.

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4. Variable Interest Entities

As of June 30, 2008, TDS consolidates the following variable interest entities:

- King Street Wireless and King Street Wireless, Inc., the general partner of King Street Wireless
- Barat Wireless L.P. (Barat Wireless) and Barat Wireless, Inc., the general partner of Barat Wireless
- Carroll Wireless L.P. (Carroll Wireless) and Carroll PCS, Inc., the general partner of Carroll Wireless

These variable interest entities are consolidated pursuant to the guidelines of FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46(R))*, as U.S. Cellular anticipates benefiting from or absorbing a majority of the variable interest entities' expected gains or losses. Pending finalization of the variable interest entities' permanent financing plans, and upon request by the variable interest entities, U.S. Cellular may agree to make additional capital contributions and advances to the variable interest entities.

See Note 3 - Acquisitions, Divestitures and Exchanges for further details on King Street Wireless.

U.S. Cellular is a limited partner in Barat Wireless, an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 66. Barat Wireless was qualified to receive a 25% bid credit available to very small businesses, defined as businesses having annual gross revenues of less than \$15 million. At the conclusion of the auction on September 18, 2006, Barat Wireless was the successful bidder with respect to 17 licenses for which it had bid \$127.1 million, net of its bid credit. On April 30, 2007, the FCC granted Barat Wireless applications with respect to the 17 licenses for which it was the successful bidder. These 17 license areas cover portions of 20 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas.

As of June 30, 2008, U.S. Cellular has made capital contributions and advances to Barat Wireless and/or its general partner of \$127.3 million; of this amount, \$127.1 million is included in Licenses in the Consolidated Balance Sheets.

U.S. Cellular is a limited partner in Carroll Wireless, an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 58. Carroll Wireless was qualified to bid on closed licenses that were available only to companies included under the FCC definition of entrepreneurs, which are small businesses that have a limited amount of assets and revenues. In addition, Carroll Wireless bid on open licenses that were not subject to restriction. With respect to these open licenses, however, Carroll Wireless was qualified to receive a 25% bid credit available to very small businesses which were defined as having average annual gross revenues of less than \$15 million. Carroll Wireless was a successful bidder for 16 licenses in Auction 58, which ended on February 15, 2005. The aggregate amount paid to the FCC for the licenses was \$129.7 million, net of the bid credit to which Carroll Wireless was entitled. On January 6, 2006, the FCC granted Carroll Wireless applications with respect to the 16 licenses for which it was the successful bidder. These licenses cover portions of 10 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas.

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As of June 30, 2008, U.S. Cellular has made capital contributions and advances to Carroll Wireless and/or its general partner of approximately \$130.1 million; of this amount, \$129.7 million is included in Licenses in the Consolidated Balance Sheets.

5. Fair Value Measurements

Effective January 1, 2008, TDS adopted the provisions of SFAS 157 for its financial assets and liabilities. Also on January 1, 2008, TDS elected to adopt the provisions of SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115* (SFAS 159), for certain assets and liabilities.

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SFAS 157 Adoption

SFAS 157 defines fair value, establishes a framework for measuring fair value in the application of U.S. 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 U.S. GAAP. SFAS 157 provides that fair value is a market-based measurement and not an entity-specific measurement, based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). This pronouncement establishes a fair value hierarchy that contains three levels for inputs used in fair value measurements. Level 1 inputs include quoted market prices for identical assets or liabilities in active markets. Level 2 inputs include quoted market prices for similar assets and liabilities in active markets or quoted market prices for identical assets and liabilities in inactive markets. Level 2 inputs must be observable either directly or indirectly for substantially the full term of the financial instrument. Level 3 inputs are unobservable.

Marketable equity securities were the only financial assets on TDS and its subsidiaries' Balance Sheet at June 30, 2008, which required the application of SFAS 157. TDS and its subsidiaries did not have any financial liabilities at June 30, 2008, which required the application of SFAS 157 for valuation purposes. TDS and its subsidiaries' marketable equity securities had a balance of \$32.0 million at June 30, 2008, and consisted entirely of an investment in the common stock of Rural Cellular Corporation (RCCC). This security is publicly traded. Fair value for this security is based upon quoted market prices for identical assets in active markets. Therefore, these inputs are considered Level 1 inputs in accordance with the guidance set forth in SFAS 157. TDS and its subsidiaries' investment in RCCC is accounted for as an available-for-sale security under the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Therefore, unrealized gains and losses on this investment are recorded as a component of Accumulated other comprehensive income.

SFAS 159 Adoption

SFAS 159 permits companies to choose 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 in which the fair value option is elected, unrealized gains and losses are recorded in the Statement of Operations. On January 1, 2008, TDS adopted SFAS 159 for its investment in Deutsche Telekom Ordinary Shares, and also for the collar portions of the variable prepaid forward contracts (forward contracts) related to such Deutsche Telekom stock.

TDS adopted SFAS 159 for these items in order to better align the financial statement presentation of the unrealized gains and losses attributable to these items with their underlying economics. Specifically, prior to the adoption of SFAS 159 for these items, the Deutsche Telekom stock was subject to the recognition provisions of SFAS 115, which required that the unrealized gains and losses on such stock be recorded in Accumulated other comprehensive income, a balance sheet account. Since the related collars did not qualify as cash flow hedges after June 2003, the changes in the fair value of the collars were reported in the Consolidated Statements of Operations in accordance with the requirements of SFAS 133 after this date. As a result of adopting SFAS 159 for both the Deutsche Telekom stock and the related collars, unrealized gains and losses on both of these items will be recorded in the Consolidated Statements of Operations as a (Gain) loss on investments and financial instruments. Such gains and losses are expected to substantially offset each other, and thus better reflect the economics of the collars, which were established in order to hedge the variability in the fluctuations of the fair value of the underlying Deutsche Telekom stock.

As a result of the election of SFAS 159 for its Deutsche Telekom stock and related collars, TDS recorded an adjustment to increase the January 1, 2008 beginning retained earnings by \$502.7 million, net of \$291.2 million of income taxes. This amount reflects an unrealized gain attributable to the Deutsche Telekom stock of \$647.3 million, net of income taxes of \$374.9 million, offset by an unrealized loss on the related collars of \$144.6 million, net of income taxes of \$83.7 million. The unrealized loss on the collars was attributable to the periods from inception

to June 2003. During such periods the collars qualified as cash flow hedges and the changes in the fair value were recorded as a component of Accumulated other comprehensive income.

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There were no tax accounting implications to the Consolidated Balance Sheet or Statement of Operations upon TDS' election of the fair value option for its Deutsche Telekom marketable equity securities and related collars other than to reclassify the related tax effects from Accumulated other comprehensive income to beginning retained earnings, as mentioned above.

The following table summarizes the impact of the adoption of SFAS 159 as of January 1, 2008:

	Balance Sheet prior to the adoption of SFAS 159 on January 1, 2008	Net unrealized gain reclassified upon adoption	Balance Sheet after adoption of SFAS 159 on January 1, 2008
Marketable equity securities	\$ 1,917,893	\$	\$ 1,917,893
Derivative liabilities	711,692		711,692
Accumulated other comprehensive income	511,776	(502,677)	9,099
Retained earnings	1,690,651	502,677	2,193,328

During the six months ended June 30, 2008, TDS disposed of all 85,969,689 Deutsche Telekom Ordinary Shares and settled all outstanding forward contracts related to such shares – see Note 10 - Marketable Equity Securities and Variable Prepaid Forward Contracts, for more information on these settlements. As a result, at June 30, 2008, TDS and its subsidiaries' investment in marketable equity securities consisted solely of \$32.0 million investment in RCCC common stock. TDS and its subsidiaries did not elect to adopt the provisions of SFAS 159 for this investment since TDS and its subsidiaries do not have any collars or other derivative instruments that hedge the impact of changes in the market value of this RCCC stock.

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The following table details the (Gain) loss on investments and financial instruments included in the Statements of Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
(Dollars in thousands)				
Gains (losses) on marketable equity securities and derivative instruments				
Deutsche Telekom:				
Increase/(decrease) in the fair value of securities (asset)	\$ 62,333	\$	\$ (294,827)	\$
(Increase)/decrease in the fair value of the embedded collars in the variable prepaid forward contracts (liability)	(58,281)	(322,952)	295,389	(83,206)
	4,052	(322,952)	562	(83,206)
Vodafone Group Plc:				
Gain on disposition of securities(1)		4,478		4,478
Gain on the settlement of variable prepaid forward contracts(1)		127,207		127,207
(Increase) in the fair value of the embedded collars in the variable prepaid forward contracts (liability)		(35,311)		(19,542)
		96,374		112,143
VeriSign:				
Gain on disposition of securities(1)		6,234		6,234
Increase in the fair value of securities (asset)		2,644		5,171
(Increase) in the fair value of the embedded collars in the variable prepaid forward contracts (liability)		(2,499)		(4,671)
		6,379		6,734
Other gains (losses)	(964)		(964)	
	\$ 3,088	\$ (220,199)	\$ (402)	\$ 35,671

(1) TDS and its subsidiaries held Vodafone American Depository Receipts (ADRs) and VeriSign Common Shares which were obtained in connection with the sale of non-strategic investments. TDS entered into a number of variable prepaid forward contracts (forward contracts) related to the Vodafone ADRs and VeriSign securities that it held. A portion of these forward contracts matured in the second quarter of 2007. TDS recorded a gain of \$137.9 million in the second quarter of 2007 on the settlement of forward contracts and the disposition of remaining VeriSign Common Shares and U.S. Cellular-owned Vodafone ADRs. As a result, after these settlements in the second quarter of 2007, TDS no longer owned VeriSign Common Shares and no longer had any liability or other obligations under the related forward contracts. The remaining Vodafone ADRs and related forward contracts were disposed of and settled in the second half of 2007.

6. Income Taxes

The overall effective tax rate on income before income taxes and minority interest for the three and six months ended June 30, 2008 was 33.4% and 34.3%, respectively, and for the three and six months ended June 30, 2007 was 55.3% and 39.3%, respectively. The effective tax rate for the three and six months ended June 30, 2008 is lower than for the three and six months ended June 30, 2007 primarily due to the recognition of state tax benefits related to the settlement of the Deutsche Telekom variable prepaid forward contracts in 2008. Also, the effective tax rate for the three months ended June 30, 2007 reflects the income tax effects of derivative losses incurred during the period.

Table of Contents**7. Earnings per Share**

Basic earnings per share is computed by dividing Net income available to common by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing Net income available to common 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,	
	2008	2007	2008	2007
(Dollars and shares in thousands, except earnings per share)				
Basic Earnings per Share:				
Net income (loss)	\$ 87,757	\$ (8,627)	\$ 161,244	\$ 210,698
Preferred dividend requirement	(13)	(13)	(26)	(26)
Net income (loss) available to common used in basic earnings per share	\$ 87,744	\$ (8,640)	\$ 161,218	\$ 210,672
Diluted Earnings per Share:				
Net income (loss) available to common used in basic earnings per share	\$ 87,744	\$ (8,640)	\$ 161,218	\$ 210,672
Minority income adjustment (1)	(200)	(1,095)	(516)	(1,767)
Preferred dividend adjustment (2)	12		25	25
Net income (loss) available to common used in diluted earnings per share	\$ 87,556	\$ (9,735)	\$ 160,727	\$ 208,930
Weighted average number of shares used in basic earnings per share:				
Common Shares	53,219	52,048	53,213	52,011
Special Common Shares	56,601	58,539	57,261	58,479
Series A Common Shares	6,447	6,444	6,445	6,445
Weighted average number of shares used in basic earnings per share	116,267	117,031	116,919	116,935
Effects of Dilutive Securities:				
Effects of stock options (3)	43		43	1,360
Effects of restricted stock units (4)	400		442	86
Effects of preferred shares(5)	104		96	51
Weighted average number of shares used in diluted earnings per share	116,814	117,031	117,500	118,432
Basic Earnings (Loss) per Share	\$ 0.75	\$ (0.07)	\$ 1.38	\$ 1.80
Diluted Earnings (Loss) per Share	\$ 0.75	\$ (0.08)	\$ 1.37	\$ 1.76

(1) The minority income adjustment reflects the additional minority share of U.S. Cellular's income computed as if all of U.S. Cellular's issuable securities were outstanding.

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- (2) The preferred dividend adjustment reflects the dividend reduction in the event any preferred series were dilutive, and therefore converted for shares.
- (3) Stock options exercisable into 337,000 Common Shares and 1,411,000 Special Common Shares for the three months ended June 30, 2008, and 1,522,000 Common Shares and 2,359,000 Special Common Shares for the three months ended June 30, 2007, were not included in computing Diluted Earnings per Share because their effects were antidilutive. Stock options exercisable into 336,000 Common Shares and 1,412,000 Special Common Shares for the six months ended June 30, 2008, and 214,000 Common Shares and 214,000 Special Common Shares for the six months ended June 30, 2007, were not included in computing Diluted Earnings per Share because their effects were antidilutive.

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(4) There were no antidilutive restricted stock units for the three months ended June 30, 2008. Restricted stock units issuable upon vesting into 80,000 Common Shares and 203,000 Special Common Shares for the three months ended June 30, 2007 were not included in computing diluted earnings per share because their effects were antidilutive. There were no antidilutive restricted stock units for the comparable six-month periods ended June 30, 2008 and 2007.

(5) There were no antidilutive preferred shares for the three months ended June 30, 2008. Preferred shares redeemable for 51,000 Common Shares were not included in computing Diluted Earnings per Share in the three months ended June 30, 2007 because their effects were antidilutive. There were no antidilutive preferred shares for the six month periods ended June 30, 2008 and 2007.

8. Licenses and Goodwill

Changes in TDS licenses and goodwill are primarily the result of acquisitions, divestitures and impairment of licenses, wireless markets and telephone companies. See Note 3 Acquisitions, Divestitures and Exchanges for information regarding transactions which affected licenses and goodwill during the period.

(Dollars in thousands)	U.S.		TDS Telecom		Total	
<u>Licenses</u>	Cellular(1)					
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
Balance December 31, 2006	\$	1,517,607	\$	2,800	\$	1,520,407
Acquisitions		7,900				7,900
Impairment		(2,136)				(2,136)
U.S. Cellular Common Share repurchases (2)		4,464				4,464
Balance June 30, 2007	\$	1,527,835	\$	2,800	\$	1,530,635

(1) U.S. Cellular's balances include licenses allocated from TDS.

(2) This adjustment is the allocation of value related to U.S. Cellular's share buyback programs. See Note 14 - TDS Special Common and U.S. Cellular Common Share Repurchases for a discussion of U.S. Cellular's purchase of its Common Shares.

(Dollars in thousands)	U.S.		TDS Telecom		Other(2)		Total	
<u>Goodwill</u>	Cellular(1)							
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(3)		2,648						2,648
Balance June 30, 2008	\$	281,666	\$	410,228	\$	3,802	\$	695,696
Balance December 31, 2006	\$	246,920	\$	398,652	\$	2,281	\$	647,853
Acquisitions		5,864		259		1,521		7,644

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U.S. Cellular Common Share repurchases(3)		12,325				12,325
Balance June 30, 2007	\$	265,109	\$	398,911	\$	3,802
						667,822

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- (1) U.S. Cellular's balances include goodwill allocated from TDS.
- (2) Other consists of goodwill related to Suttle Straus.
- (3) This adjustment is the allocation of value related to U.S. Cellular's share buyback programs. See Note 14 - TDS Special Common and U.S. Cellular Common Share Repurchases for a discussion of U.S. Cellular's purchase of its Common Shares.

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 performs the annual impairment review on licenses and goodwill during the second quarter of its fiscal year. Accordingly, the annual impairment reviews for licenses and goodwill for 2008 and 2007 were performed in the second quarter of those years. Such impairment reviews indicated that there was no impairment in 2008 and an impairment of licenses of \$2.1 million in 2007. The impairment in 2007 is included in Depreciation, amortization and accretion expense in the Consolidated Statements of Operations.

Table of Contents**9. Customer Lists**

Customer lists, which are intangible assets resulting from acquisitions (or step acquisition allocation of value related to U.S. Cellular's share buyback programs), are amortized using a combination of accelerated and straight-line methods over the remaining estimated life. The changes in the customer lists for the six months ended June 30, 2008 and 2007 were as follows:

(Dollars in thousands)	U.S. Cellular(1)	TDS Telecom	Total
<u>Customer lists</u>			
Balance December 31, 2007	\$ 25,851	\$	\$ 25,851
Acquisitions	1,045	4,799	5,844
Amortization	(6,990)		(6,990)
U.S. Cellular Common Share repurchases(2)	4,364		4,364
Balance June 30, 2008	\$ 24,270	\$ 4,799	\$ 29,069
Balance December 31, 2006	\$ 26,196	\$	\$ 26,196
Acquisitions	1,560		1,560
Amortization	(7,381)		(7,381)
U.S. Cellular Common Share repurchases(2)	9,384		9,384
Balance June 30, 2007	\$ 29,759	\$	