TELEPHONE & DATA SYSTEMS INC /DE/
Form 424B3
May 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 March 31, 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 May 7, 2008

# 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 March 31, 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** | **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 x No o

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 x
Accelerated filer o
Non-accelerated filer o
Smaller reporting company o

(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 o No x

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 March 31, 2008** |
|---|---|
| Common Shares, $.01 par value | 53,164,628 Shares |
| Special Common Shares, $.01 par value | 57,234,617 Shares |
| Series A Common Shares, $.01 par value | 6,442,058 Shares |

**Telephone and Data Systems, Inc.**

**Quarterly Report on Form 10-Q**

**For the Period Ended March 31, 2008**

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Signatures

**Part I.  Financial Information**

**Item 1.  Financial Statements**

**Telephone and Data Systems, Inc.**

**Consolidated Statements of Operations**

**Unaudited**

| | Three Months Ended March 31, 2008 | | 2007 | |
|---|---|---|---|---|
| | (Dollars and shares in thousands, except per share amounts) | | | |
| **Operating Revenues** | $ | 1,249,101 | $ | 1,156,557 |
| | | | | |
| **Operating Expenses** | | | | |
| Cost of services and products (excluding Depreciation, amortization and accretion expense reported below) | | 442,383 | | 402,033 |
| Selling, general and administrative expense | | 463,299 | | 420,417 |
| Depreciation, amortization and accretion expense | | 186,158 | | 188,005 |
| Loss on asset disposals, net | | 3,652 | | 3,305 |
| Total Operating Expenses | | 1,095,492 | | 1,013,760 |
| | | | | |
| **Operating Income** | | 153,609 | | 142,797 |
| | | | | |
| **Investment and Other Income (Expense)** | | | | |
| Equity in earnings of unconsolidated entities | | 21,470 | | 23,696 |
| Interest and dividend income | | 9,746 | | 16,196 |
| Interest expense | | (41,380) | | (57,801) |
| Gain (loss) on investments and financial instruments | | (3,490) | | 255,870 |
| Other, net | | (199) | | (2,224) |
| Total Investment and Other Income (Expense) | | (13,853) | | 235,737 |
| | | | | |
| **Income Before Income Taxes and Minority Interest** | | 139,756 | | 378,534 |
| Income tax expense | | 49,251 | | 141,238 |
| **Income Before Minority Interest** | | 90,505 | | 237,296 |
| Minority share of income, net of tax | | (17,018) | | (17,971) |
| **Net Income** | | 73,487 | | 219,325 |
| Preferred dividend requirement | | (13) | | (13) |
| **Net Income Available To Common** | $ | 73,474 | $ | 219,312 |
| | | | | |
| **Basic Weighted Average Shares Outstanding** | | 117,570 | | 116,837 |
| **Basic Earnings Per Share (Note 7)** | $ | 0.62 | $ | 1.88 |
| | | | | |
| **Diluted Weighted Average Shares Outstanding** | | 118,191 | | 118,383 |
| **Diluted Earnings Per Share (Note 7)** | $ | 0.62 | $ | 1.85 |
| | | | | |
| **Dividends Per Share** | $ | 0.1025 | $ | 0.0975 |

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

**Telephone and Data Systems, Inc.**

**Consolidated Statements of Cash Flows**

**Unaudited**

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| | (Dollars in thousands) | |
| **Cash Flows from Operating Activities** | | |
| Net income | $ 73,487 | $ 219,325 |
| Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation, amortization and accretion | 186,158 | 188,005 |
| Bad debts expense | 20,405 | 12,255 |
| Stock-based compensation expense | 3,116 | 4,651 |
| Deferred income taxes | (102,540) | 81,841 |
| (Gain) loss on investments and financial instruments | 3,490 | (255,870) |
| Equity in earnings of unconsolidated entities | (21,470) | (23,696) |
| Distributions from unconsolidated entities | 7,047 | 2,321 |
| Minority share of income | 17,018 | 17,971 |
| Loss on asset disposals, net | 3,652 | 3,305 |
| Noncash interest expense | 5,319 | 5,378 |
| Other noncash expense | 189 | |
| Excess tax benefit from stock awards | (1,138) | (1,522) |
| Changes in assets and liabilities | | |
| Change in accounts receivable | (10,156) | 20,262 |
| Change in inventory | (15,485) | 15,785 |
| Change in accounts payable | (14,529) | (27,048) |
| Change in customer deposits and deferred revenues | 6,162 | 12,648 |
| Change in accrued taxes | 149,349 | 55,355 |
| Change in accrued interest | 5,807 | 5,403 |
| Change in other assets and liabilities | (46,882) | (49,901) |
| | 268,999 | 286,468 |
| | | |
| **Cash Flows from Investing Activities** | | |
| Additions to property, plant and equipment | (132,465) | (130,717) |
| Cash paid for acquisitions | (107,685) | (18,237) |
| Cash received from divestitures | 6,838 | 279 |
| Proceeds from sale of investments | 48,619 | |
| Other investing activities | 371 | 2,246 |
| | (184,322) | (146,429) |
| | | |
| **Cash Flows from Financing Activities** | | |
| Issuance of notes payable | | 25,000 |
| Issuance of long-term debt | | 454 |
| Repayment of long-term debt | (928) | (848) |
| TDS Common Shares and Special Common Shares reissued for benefit plans, net of tax payments | 1,103 | 7,040 |
| U.S. Cellular Common Shares reissued for benefit plans, net of tax payments | (2,526) | 5,558 |
| Excess tax benefit from stock awards | 1,138 | 1,522 |

| | | | | |
|---|---|---|---|---|
| Repurchase of TDS Special Common Shares | | (40,584) | | |
| Repurchase of U.S. Cellular Common Shares | | (6,201) | | |
| Dividends paid | | (13) | | (11,399) |
| Distributions to minority partners | | (2,588) | | (2,519) |
| Other financing activities | | 1,262 | | (1,769) |
| | | (49,337) | | 23,039 |
| | | | | |
| **Net Increase in Cash and Cash Equivalents** | | 35,340 | | 163,078 |
| | | | | |
| **Cash and Cash Equivalents -** | | | | |
| Beginning of period | | 1,174,446 | | 1,013,325 |
| End of period | $ | 1,209,786 | $ | 1,176,403 |

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

**Telephone and Data Systems, Inc.**

**Consolidated Balance Sheets**

**Assets**

| | March 31, 2008 (Unaudited) | December 31, 2007 |
|---|---|---|
| | (Dollars in thousands) | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 1,209,786 | $ 1,174,446 |
| Accounts receivable | | |
| Due from customers, less allowances of $15,104 and $16,326, respectively | 368,337 | 379,558 |
| Other, principally connecting companies, less allowances of $5,670 and $5,297, respectively | 141,044 | 150,863 |
| Marketable equity securities | 969,311 | 1,917,893 |
| Inventory | 128,771 | 115,818 |
| Prepaid expenses | 92,890 | 77,155 |
| Other current assets | 23,872 | 59,855 |
| | 2,934,011 | 3,875,588 |
| **Investments** | | |
| Licenses | 1,824,144 | 1,516,629 |
| Goodwill | 684,164 | 679,129 |
| Customer lists, net of accumulated amortization of $85,947 and $82,243, respectively | 25,794 | 25,851 |
| Investments in unconsolidated entities | 224,282 | 206,418 |
| Other investments | 11,279 | 11,509 |
| | 2,769,663 | 2,439,536 |
| **Property, Plant and Equipment** | | |
| In service and under construction | 8,174,705 | 8,064,229 |
| Less accumulated depreciation | 4,692,065 | 4,539,127 |
| | 3,482,640 | 3,525,102 |
| **Other Assets and Deferred Charges** | 52,099 | 53,917 |
| **Total Assets** | $ 9,238,413 | $ 9,894,143 |

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

**Telephone and Data Systems, Inc.**

**Consolidated Balance Sheets**

**Liabilities and Stockholders Equity**

| | March 31, 2008 (Unaudited) | December 31, 2007 |
|---|---|---|
| | (Dollars in thousands) | |
| **Current Liabilities** | | |
| Current portion of long-term debt | $ 4,444 | $ 3,860 |
| Forward contracts | 669,226 | 1,005,512 |
| Accounts payable | 298,840 | 308,882 |
| Customer deposits and deferred revenues | 172,377 | 166,191 |
| Accrued interest | 24,264 | 18,456 |
| Accrued taxes | 153,245 | 40,439 |
| Accrued compensation | 61,806 | 91,703 |
| Derivative liability | 156,081 | 711,692 |
| Deferred income tax liability | 209,074 | 327,162 |
| Other current liabilities | 335,535 | 125,622 |
| | 2,084,892 | 2,799,519 |
| **Deferred Liabilities and Credits** | | |
| Net deferred income tax liability | 570,747 | 555,593 |
| Asset retirement obligation | 177,527 | 173,468 |
| Other deferred liabilities and credits | 157,195 | 154,602 |
| | 905,469 | 883,663 |
| **Long-Term Debt** | | |
| Long-term debt, excluding current portion | 1,635,373 | 1,632,226 |
| **Commitments and Contingencies** | | |
| **Minority Interest** | 665,701 | 651,537 |
| **Preferred Shares** | 860 | 860 |
| **Common Stockholders Equity** | | |
| Common Shares, par value $.01 per share; authorized 100,000,000 shares; issued 56,581,000 and 56,581,000 shares, respectively | 566 | 566 |
| Special Common Shares, par value $.01 per share; authorized 165,000,000 shares; issued 62,946,000 and 62,946,000 shares, respectively | 629 | 629 |
| Series A Common Shares, par value $.01 per share; authorized 25,000,000 shares; issued and outstanding 6,442,000 and 6,442,000 shares, respectively | 64 | 64 |
| Capital in excess of par value | 2,049,738 | 2,048,110 |
| Treasury Shares at cost: | | |
| Common Shares, 3,416,000 and 3,433,000 shares, respectively | (119,598) | (120,544) |
| Special Common Shares, 5,711,000 and 4,712,000 shares, respectively | (245,177) | (204,914) |
| Accumulated other comprehensive income | 9,180 | 511,776 |
| Retained earnings | 2,250,716 | 1,690,651 |
| | 3,946,118 | 3,926,338 |
| **Total Liabilities and Stockholders Equity** | $ 9,238,413 | $ 9,894,143 |

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

**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 80.8%-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 March 31, 2008 and December 31, 2007, the results of operations for the three months ended March 31, 2008 and 2007, and the cash flows for the three months ended March 31, 2008 and 2007. The results of operations and cash flows for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year.

**2. Summary of Significant Accounting Policies**

<u>Pension Plan</u>

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 currently. Pension costs were $4.6 million and $3.6 million for the three months ended March 31, 2008 and March 31, 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.

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

| | Three Months Ended March 31, 2008 | 2007 |
|---|---|---|
| | (Dollars in thousands) | |
| Service Cost | $ 499 | $ 609 |
| Interest on accumulated benefit obligation | 863 | 858 |
| Expected return on plan assets | (948) | (821) |
| Amortization of: | | |
| Prior service cost | (207) | (207) |
| Net loss | 242 | 340 |
| Net postretirement cost | $ 449 | $ 779 |

TDS expects to make contributions to the post-retirement plans in the second quarter of 2008. The amount of contributions will be between $3.7 million and $4.5 million.

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 $36.8 million and $30.8 million for the three months ended March 31, 2008 and 2007, respectively.

Accounting for the Effects of Certain Types of Regulation

For the three months ended March 31, 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 months ended March 31, 2007, and do not follow such provisions for the three months ended March 31, 2008. This accounting change did not have a material impact on the comparability of TDS consolidated financial statements for these periods.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards 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 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) would also apply 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. It 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 on a prospective basis for TDS 2009 financial statements, 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 2009 financial statements. TDS current derivative instruments are expected to mature prior to the effective date of SFAS 161, and therefore, TDS does not expect SFAS 161 to have an impact on its disclosures.

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 2009 financial statements. TDS does not anticipate that the adoption of FSP FAS 142-3 will have an impact on its financial position or results of operations.

**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 March 31, 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 was eligible for bid credits with respect to spectrum purchased in Auction 73. 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 March 31, 2008 Consolidated Balance Sheet. In January 2008, U.S. Cellular made capital contributions and advances to King Street Wireless and its general partner of $97.0 million. King Street Wireless used the funding to pay the FCC an initial deposit of $97.0 million in January 2008 to allow it to participate in Auction 73. During April 2008, U.S. Cellular made additional capital contributions and advances to King Street Wireless and its general partner of $203.5 million in cash. This amount is recorded as a component of Other current liabilities in TDS March 31, 2008 Consolidated Balance Sheet. King Street Wireless then paid this amount to the FCC in April 2008 to fulfill its remaining obligation ($300.5 million aggregate bid less $97.0 million deposit) 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 not yet awarded any of the licenses to winning bidders nor is there any 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.

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 $7.0 million in cash, subject to a working capital adjustment. The transaction is expected to close in the second quarter of 2008.

*Transactions Completed as of March 31, 2008:*

As previously disclosed, 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.

As previously disclosed, 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.

As previously disclosed, 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.

As previously disclosed, on November 30, 2007, TDS Telecom entered into an agreement to acquire a telephone company in Indiana serving 750 access lines for $6.7 million in cash, including acquisition costs of $0.1 million. On February 13, 2008, TDS Telecom completed this transaction.

TDS acquisitions for the three months ended March 31, 2008 and the allocation of the purchase price for each respective acquisition were as follows:

| | | Allocation of Purchase Price | | | |
|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Purchase price** | **Goodwill(1)** | **Licenses** | **Customer lists** | **Net tangible assets/(liabilities)** |
| U.S. Cellular Acquisitions | | | | | |
| Auction 73 Licenses | $ 300,479 | $ | $ 300,479 | $ | $ |
| Maine Licenses | 5,000 | | 5,000 | | |
| Other | 1,891 | 970 | 623 | 964 | (666) |
| | | | | | |
| Telecom Acquisitions | | | | | |
| ILEC telephone company | 6,712 | 1,923 | | 499 | 4,290 |
| | | | | | |
| Total | $ 314,082 | $ 2,893 | $ 306,102 | $ 1,463 | $ 3,624 |

(1) None of the goodwill is deductible for tax purposes.

## 4. Variable Interest Entities

As of March 31, 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 U.S. Cellular licensed areas.

Barat Wireless is in the process of developing its long-term business and financing plans. As of March 31, 2008, U.S. Cellular has made capital contributions and advances to Barat Wireless and/or its general partner of $127.2 million; of this amount $127.1 million is included in Licenses in the Consolidated Balance Sheets. Barat Wireless used the funding to pay the FCC $127.1 million in 2006 to fulfill its obligation for the licenses purchased in Auction 66.

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 licenses, 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. These licenses cover portions of 10 states and are in markets which are either adjacent to or overlap U.S. Cellular licensed areas.

Carroll Wireless is in the process of developing its long-term business and financing plans. As of March 31, 2008, U.S. Cellular has made capital contributions and advances to Carroll Wireless and/or its general partner of approximately $129.9 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.

<u>SFAS 157 Adoption</u>

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.

Although TDS believes the valuation methodologies being utilized are most appropriate for valuing a given asset or liability, different methodologies or assumptions could result in a different estimate of fair value at the measurement date.

TDS methods of determining or estimating fair value for financial assets and liabilities that are reported on a fair value basis subject to the provisions of SFAS 157 are as follows:

*Marketable Equity Securities:*

TDS and its subsidiaries hold marketable equity securities in Deutsche Telekom and Rural Cellular Corporation ( RCCC ). These securities are publicly traded. Fair value for these securities is based upon quoted market prices for identical assets in active markets. Therefore, these inputs are considered Level 1 inputs in accordance with guidance set forth in SFAS 157.

TDS 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* ( SFAS 115 ). Therefore, unrealized gains and losses on this investment are recorded as a component of Accumulated other comprehensive income.

Prior to the adoption of SFAS 159 on January 1, 2008 (see below), TDS investment in Deutsche Telekom was accounted for as an available for sale security under the provisions of SFAS 115, and therefore unrealized gains and losses on this investment were recorded as a component of Accumulated other comprehensive income for the three months ended March 31, 2007. Subsequent to the adoption of SFAS 159, TDS investment in Deutsche Telekom was accounted for as a trading security under the provisions of SFAS 115, and therefore unrealized gains and losses on this investment were recorded as a component of (Gain) loss on investments and financial instruments for the three months ended March 31, 2008.

*Derivative Liabilities:*

TDS has variable prepaid forward contracts ( forward contracts ) in connection with its Deutsche Telekom marketable equity securities. The collar component of these forward contracts represents a derivative instrument as defined by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS 133 ). The fair value of these collars is estimated by applying option pricing models. The inputs to these models include the current Deutsche Telekom stock price, collar ceiling strike price, collar floor strike price, risk-free interest rate, contractual dividend yield, contract term, and the estimated future volatility of the underlying Deutsche Telekom stock. Cumulatively, these inputs are considered Level 2 inputs in accordance with the guidance set forth in SFAS 157.

The following table includes each major category of financial assets and liabilities that are reported on a fair value basis subject to SFAS 157 at March 31, 2008 and its classification within the fair value hierarchy:

| **(Dollars in thousands)** | **Quoted prices in active markets for identical assets (Level 1)** | **Significant other observable inputs (Level 2)** |
|---|---|---|
| *Assets* | | |
| Marketable equity securities | $ 969,311 | $ |
| | | |
| *Liabilities* | | |
| Derivative liability | $ | $ 156,081 |

<u>SFAS 159 Adoption</u>

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 AG Ordinary Shares, and also for the collar portions of the variable prepaid 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 earnings 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 earnings 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.

At March 31, 2008, in addition to the aforementioned investment in Deutsche Telekom, TDS investment in marketable equity securities included a $31.8 million investment in RCCC common stock. TDS accounts for its RCCC common stock under the provisions of SFAS 115, as an available-for-sale security. TDS did not elect to adopt the provisions of SFAS 159 for this investment since TDS does not have any collars or other derivative instruments that hedge the impact of changes in the market value of this RCCC 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 of income taxes. This amount reflects an unrealized gain attributable to the Deutsche Telekom stock of $647.3 million, net of income tax of $374.9 million, offset by an unrealized loss on the related collars of $144.6 million, net of income tax 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.

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. On a recurring basis, as the Consolidated Statement of Operations reflects a benefit or detriment related to the increase or decrease in the value of these securities and collars, there will be deferred tax consequences. For income tax purposes, no gain or loss is recognized until the securities are sold and until the collars are settled.

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 |

The following table details the (Gain) loss on investments and financial instruments included in the Statements of Operations for the three months ended March 31, 2008 and 2007:

| | **March 31, 2008** | **March 31, 2007** |
|---|---|---|
| | **(Dollars in thousands)** | |
| Gain (loss) on marketable equity securities | | |
| Deutsche Telekom AG | $ (357,160) | $ |
| VeriSign, Inc. | | 2,527 |
| | (357,160) | 2,527 |
| | | |
| Gain (loss) on derivative instruments | | |
| Deutsche Telekom AG collars(1) | 353,670 | 239,746 |
| Vodafone Group Plc collars (1) | | 15,769 |
| VeriSign, Inc. collars(1) | | (2,172) |
| | 353,670 | 253,343 |

| | | | | |
|---|---|---|---|---|
| Total | $ | (3,490) | $ | 255,870 |

---

(1) These derivative instruments represent the collar portions of variable prepaid forward contracts that relate to each of these marketable equity security investments. All forward contracts relating to the Vodafone Group and VeriSign shares were settled and the remaining shares disposed of in 2007. See Note 10 - Marketable Equity Securities and Variable Prepaid Forward Contracts, for more information on the variable prepaid forward contracts.

**6. Income Taxes**

The overall effective tax rate on income before income taxes and minority interest for the three months ended March 31, 2008 and 2007 was 35.2% and 37.3%, respectively. The decrease in the effective tax rate for the 2008 period was attributable to lower state income tax rates applicable to tax gains recorded in the first quarter of 2008.

**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 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 effect 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 March 31, | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | (Dollars and shares in thousands, except earnings per share) | | | |
| Basic Earnings per Share: | | | | |
| Net income | $ | 73,487 | $ | 219,325 |
| Preferred dividend requirement | | (13) | | (13) |
| Net income available to common used in basic earnings per share | $ | 73,474 | $ | 219,312 |
| | | | | |
| Diluted Earnings per Share: | | | | |
| Net income available to common used in basic earnings per share | $ | 73,474 | $ | 219,312 |
| Minority income adjustment (1) | | (321) | | (529) |
| Preferred dividend adjustment (2) | | 12 | | 12 |
| Net income available to common used in diluted earnings per share | $ | 73,165 | $ | 218,795 |
| | | | | |
| Weighted average number of shares used in basic earnings per share: | | | | |
| Common Shares | | 53,208 | | 51,975 |
| Special Common Shares | | 57,920 | | 58,417 |
| Series A Common Shares | | 6,442 | | 6,445 |
| Weighted average number of shares used in basic earnings per share | | 117,570 | | 116,837 |
| Effects of Dilutive Securities: | | | | |
| Effects of preferred shares | | 50 | | 44 |
| Effects of stock options (3) | | 481 | | 1,427 |
| Effects of restricted stock units (4) | | 90 | | 75 |
| Weighted average number of shares used in diluted earnings per share | | 118,191 | | 118,383 |
| | | | | |
| Basic Earnings per Share | $ | 0.62 | $ | 1.88 |
| | | | | |
| Diluted Earnings per Share | $ | 0.62 | $ | 1.85 |

(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.

(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 335,867 Common Shares and 1,414,320 Special Common Shares for the three months ended March 31, 2008, and 224,722 Common Shares and 224,722 Special Common Shares for the three months ended March 31, 2007, were not included in computing Diluted Earnings per Share because their effects were antidilutive.

(4) Restricted stock units issuable upon vesting into 466 Special Common Shares for the three months ended March 31, 2008 were not included in computing diluted earnings per share because their effects were antidilutive. There were no antidilutive restricted stock units for the comparable period in 2007.

**8. Licenses and Goodwill**

Changes in TDS licenses and goodwill are primarily the result of acquisitions, divestitures and impairment of its 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. Cellular(1)** | **TDS Telecom** | **Total** |
|---|---|---|---|
| Licenses | | | |
| Balance December 31, 2007 | $ 1,513,829 | $ 2,800 | $ 1,516,629 |
| Acquisitions | 306,102 | | 306,102 |
| U.S. Cellular Common Share repurchases (2) | 1,413 | | 1,413 |
| Balance March 31, 2008 | $ 1,821,344 | $ 2,800 | $ 1,824,144 |
| | | | |
| Balance December 31, 2006 | $ 1,517,607 | $ 2,800 | $ 1,520,407 |
| Acquisitions | 7,900 | | 7,900 |
| Balance March 31, 2007 | $ 1,525,507 | $ 2,800 | $ 1,528,307 |

(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 13 - 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. Cellular(1)** | **TDS Telecom** | **Other(2)** | **Total** |
|---|---|---|---|---|
| Goodwill | | | | |
| Balance December 31, 2007 | $ 276,416 | $ 398,911 | $ 3,802 | $ 679,129 |
| Acquisitions | 970 | 1,923 | | 2,893 |
| U.S. Cellular Common Share repurchases(3) | 2,142 | | | 2,142 |
| Balance March 31, 2008 | $ 279,528 | $ 400,834 | $ 3,802 | $ 684,164 |
| | | | | |
| Balance December 31, 2006 | $ 246,920 | $ 398,652 | $ 2,281 | $ 647,853 |
| Acquisitions | 5,818 | | | 5,818 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Balance March 31, 2007 | $ | 252,738 | $ | 398,652 | $ | 2,281 | $ | 653,671 |

(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 13 - TDS Special Common and U.S. Cellular Common Share Repurchases for a discussion of U.S. Cellular s purchase of its Common Shares.

**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 three months ended March 31, 2008 and 2007 were as follows:

| (Dollars in thousands) | | U.S. Cellular(1) | | TDS Telecom | | Total |
|---|---|---|---|---|---|---|
| Customer lists | | | | | | |
| Balance December 31, 2007 | $ | 25,851 | $ | | $ | 25,851 |
| Acquisitions | | 964 | | 499 | | 1,463 |
| Amortization | | (3,703) | | | | (3,703) |
| U.S. Cellular Common Share repurchases(2) | | 2,183 | | | | 2,183 |
| Balance March 31, 2008 | $ | 25,295 | $ | 499 | $ | 25,794 |
| | | | | | | |
| Balance December 31, 2006 | $ | 26,196 | $ | | $ | 26,196 |
| Acquisitions | | 1,560 | | | | 1,560 |
| Amortization | | (3,773) | | | | (3,773) |
| Balance March 31, 2007 | $ | 23,983 | $ | | $ | 23,983 |

(1) U.S. Cellular s balance include customer lists allocated from TDS.

(2) This adjustment is the allocation of value related to U.S. Cellular s share buyback programs. See Note 13 - TDS Special Common and U.S. Cellular Common Share Repurchases for a discussion of U.S. Cellular s purchase of its Common Shares.

Based on the Customer lists balance as of March 31, 2008, amortization expense for the remainder of 2008 and for the years 2009-2013 is expected to be $8.5 million, $7.7 million, $6.0 million, $3.0 million, $0.5 million and $0.1 million, respectively.

**10. Marketable Equity Securities and Variable Prepaid Forward Contracts**

TDS holds marketable equity securities, which were obtained in connection with the sale of non-strategic investments. Information regarding TDS marketable equity securities is summarized as follows:

| | | March 31, 2008 | | December 31, 2007 |
|---|---|---|---|---|
| | | (Dollars in thousands) | | |
| Marketable Equity Securities Current Assets | | | | |
| Deutsche Telekom AG - 55,969,689 and 85,969,689 Ordinary Shares, respectively | $ | 937,492 | $ | 1,886,175 |
| Rural Cellular Corporation - 719,396 Common Shares | | 31,819 | | 31,718 |
| Aggregate fair value included in Current Assets | | 969,311 | | 1,917,893 |
| Accounting cost basis | | 938,140 | | 864,643 |
| Gross unrealized holding gains (1) | | 31,171 | | 1,053,250 |

| | | |
|---|---|---|
| Equity method unrealized gains | 387 | 387 |
| Income tax (expense) | (11,435) | (386,315) |
| Minority share of unrealized holding gains | (1,949) | (1,945) |
| Unrealized holding gains, net of tax and minority share (1) | 18,174 | 665,377 |
| Derivative instruments, net of tax and minority share(1) | | (144,583) |
| Retirement plans, net of tax | (8,994) | (9,018) |
| Accumulated other comprehensive income | $ 9,180 | $ 511,776 |

(1) Upon the adoption of SFAS 159 on January 1, 2008, unrealized holding gains and losses related to the Deutsche Telekom AG Ordinary Shares and the collar portions of the variable prepaid forward contracts related to such shares (derivatives) were reclassified to retained earnings. See Note 5 - Fair Value Measurements, for further details on the adoption of SFAS 159.

TDS entered into variable prepaid forward contracts ( forward contracts ) related to the Deutsche Telekom ordinary shares it holds. The economic hedge risk management objective of the forward contracts is 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 is hedged at or above the accounting cost basis of the securities. As of December 31, 2007, such forward contracts were scheduled to mature during the period January 2008 to September 2008. The principal amount of the forward contracts was accounted for as a loan. The forward contracts contain embedded collars that are bifurcated and accounted for as derivatives in accordance with SFAS 133.

The forward contracts related to 30 million Deutsche Telekom Ordinary Shares matured during the quarter ended March 31, 2008. TDS elected to deliver a substantial majority of the 30 million Deutsche Telekom ordinary shares in settlement of the forward contracts relating to such Deutsche Telekom ordinary shares and disposed of the remaining Deutsche Telekom ordinary shares related to such forward contracts and realized $48.6 million of cash proceeds. Disposition of these 30 million shares through settlement and sale resulted in a current tax liability of $113.0 million. After these forward contracts were settled in January and February 2008, TDS owns 55,969,689 Deutsche Telekom ordinary shares at March 31, 2008. The forward contracts related to TDS 55,969,689 Deutsche Telekom ordinary shares are scheduled to mature between May and September 2008. As a result of TDS adopting SFAS 159 as of January 1, 2008, no gain or loss was recognized upon the settlement in the quarter ended March 31, 2008. Rather changes in the fair value of the Deutsche Telekom ordinary shares and the collar portion of the forward contracts related to such shares were recorded in Gain (loss) on investments and financial instruments from January 1, 2008 through the respective settlement dates. See Note 5 - Fair Value Measurements for details on TDS adoption of SFAS 159 and the impact on TDS financial statements.

The remaining Deutsche Telekom ordinary shares are classified as Current Assets and the related forward contracts and derivative liability are classified as Current Liabilities in the Consolidated Balance Sheet at March 31, 2008. Contracts aggregating $236.4 million require quarterly interest payments at the LIBOR rate plus 50 basis points (the three-month LIBOR rate was 2.69% at March 31, 2008). Contracts aggregating $438.0 million are structured as zero-coupon obligations with a weighted average effective interest rate of 4.4% per year. No interest payments are required for the zero-coupon obligations during the contract period.

Under the terms of the forward contracts, TDS will continue to own the contracted shares and will receive dividends paid on such contracted shares, if any. The forward contracts may be settled in Deutsche Telekom shares or in cash, pursuant to formulas that collar the price of the shares. The collars typically are adjusted contractually for any changes in dividends on the underlying shares. If the dividend increases, the collar s upside potential typically is reduced. If the dividend decreases, the collar s upside potential typically is increased. If TDS elects to settle in shares, it will be required to deliver the number of shares of the contracted security determined pursuant to the formula. If shares are delivered in the settlement of the forward contract, TDS would incur a current tax liability at the time of delivery based on the difference between the tax basis of the marketable equity securities delivered and the net amount realized through maturity. If TDS elects to settle in cash, it will be required to pay an amount in cash equal to the fair market value of the number of shares determined pursuant to the formula.

In April and May 2008, TDS settled or agreed to settle forward contracts related to 46,969,689 additional Deutsche Telekom ordinary shares. The forward contracts related to the 46,969,689 Deutsche Telekom shares were or will be settled prior to their scheduled maturity dates in May 2008 through September 2008. See Note 17 Subsequent Events, for details on the early settlement of such forward contracts.

TDS is required to comply with certain covenants under the forward contracts. TDS believes that it was in compliance as of March 31, 2008 with all covenants and other requirements set forth in its forward contracts.

On July 30, 2007, RCCC announced that Verizon Wireless agreed to purchase the outstanding shares of RCCC for $45 per share in cash. The acquisition is expected to close in 2008 and, therefore, the investment is classified as a Current Asset in TDS Consolidated Balance Sheet as of March 31, 2008. If the transaction closes, TDS will receive approximately $32.4 million in cash, recognize a $31.7 million pre-tax gain and cease to own any interest in RCCC.

**11. Investments in Unconsolidated Entities**

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

TDS held a 5.5% ownership interest in the Los Angeles SMSA Limited Partnership ( LA Partnership ) as of March 31, 2008 and March 31, 2007, and recorded $15.8 million and $18.0 million, respectively, of equity income related to the LA Partnership in the three month periods then ended. Such amounts are included in Equity in earnings of unconsolidated entities in the Consolidated Statements of Operations.

Based on data furnished to TDS by the managing partner the following table summarizes the operating results of the LA Partnership:

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| | (Dollars in thousands) | |
| Revenues | $ 949,000 | $ 904,000 |
| Operating expenses | 652,000 | 584,000 |
| Operating income | 297,000 | 320,000 |
| Other income | 7,000 | 8,000 |
| Net income | $ 304,000 | $ 328,000 |

**12. Commitments and Contingencies**

<u>Indemnifications</u>

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

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.

## 13. TDS Special Common and U.S. Cellular Common 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. This authorization will expire on March 2, 2010. During the three months ended March 31, 2008, TDS repurchased 1,041,016 Special Common Shares for $45.1 million, or an average of $43.28 per share pursuant to this authorization. Of this amount, $40.6 million was paid in the first quarter of 2008, and $4.5 million was paid in April of 2008. TDS did not repurchase any Special Common Shares in the first quarter of 2007. As of March 31, 2008, TDS has purchased a total of $171.7 million of Special Common Shares under this authorization, and therefore may purchase up to $78.3 million in future periods.

The Board of Directors of U.S. Cellular has 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. This authorization does not have an expiration date. During the three months ended March 31, 2008, U.S. Cellular repurchased 150,000 Common Shares for $10.8 million, or an average of $71.70 per share, pursuant to this authorization. U.S. Cellular also received $4.6 million in cash during the first quarter of 2008 as a final settlement payment for 2007 Common Share repurchases executed through accelerated share repurchase agreements with an investment banking firm. U.S. Cellular did not repurchase any Common Shares in the first quarter of 2007.

TDS ownership percentage of U.S. Cellular increases upon such U.S. Cellular share repurchases. Therefore, TDS accounts for U.S. Cellular s purchases of U.S. Cellular Common Shares as step acquisitions using purchase accounting. See Note 8 - Licenses and Goodwill, and Note 9 - Customer Lists, for details on the amounts allocated to Licenses, Goodwill and Customer Lists related to the repurchase of U.S. Cellular Common Shares for the three months ended March 31, 2008.

**14. Accumulated Other Comprehensive Income**

The cumulative balances of unrealized gains (losses) on marketable equity securities, derivative instruments and retirement plans and related income tax effects included in Accumulated other comprehensive income are as follows.

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| | (Dollars in thousands) | |
| **Marketable Equity Securities** | | |
| Balance, beginning of period (prior to adoption of SFAS 159) | $ 665,377 | $ 749,978 |
| Cumulative effect adjustment upon the adoption of SFAS 159(1) | (647,260) | |
| Balance, beginning of period (after adoption of SFAS 159) | 18,117 | 749,978 |
| Add (deduct): | | |
| Unrealized gains (losses) | 101 | (247,902) |
| Deferred tax (expense) benefit | (39) | 90,774 |
| | 62 | (157,128) |
| Minority share of unrealized gains | (5) | 962 |
| Net increase (decrease) in unrealized gains | 57 | (156,166) |
| Initial application of FIN 48(2) | | 30,306 |
| Balance, end of period | $ 18,174 | $ 624,118 |
| | | |
| **Derivative Instruments** | | |
| Balance, beginning of period (prior to adoption of SFAS 159) | $ (144,583) | $ (215,122) |
| Cumulative effect adjustment upon the adoption of SFAS 159(1) | 144,583 | |
| Balance, beginning of period (after adoption of SFAS 159) | | (215,122) |
| Add (deduct): | | |
| Minority share of unrealized losses | | (4) |
| Net (increase) decrease in unrealized losses | | (4) |
| Initial application of FIN 48(2) | | (9,583) |
| Balance, end of period | $ | $ (224,709) |
| | | |
| **Retirement Plans** | | |
| Balance, beginning of period | $ (9,018) | $ (12,743) |
| Add (deduct): | | |
| Amounts included in net periodic benefit cost for the period | | |
| Amortization of prior service cost | (207) | (207) |
| Amortization of unrecognized net loss | 242 | 340 |
| | 35 | 133 |
| Deferred income tax (expense) | (11) | (51) |
| Net change in retirement plans | 24 | 82 |
| Balance, end of year | $ (8,994) | $ (12,661) |
| | | |
| **Accumulated Other Comprehensive Income** | | |
| Balance, beginning of period (prior to adoption of SFAS 159) | $ 511,776 | $ 522,113 |
| Cumulative effect adjustment upon the adoption of SFAS 159(1) | (502,677) | |
| Balance, beginning of period (after adoption of SFAS 159) | 9,099 | 522,113 |
| Add (deduct): | | |
| Net change in marketable equity securities | 57 | (156,166) |
| Net change in derivative instruments | | (4) |
| Net change in retirement plans | 24 | 82 |
| Net change included in comprehensive income | 81 | (156,088) |
| Initial application of FIN 48(2) | | 20,723 |
| Net change included in accumulated comprehensive income | 81 | (135,365) |

| | | | | |
|---|---|---|---|---|
| Balance, end of period | $ | 9,180 | $ | 386,748 |

(1) See Note 5 - Fair Value Measurements for additional detail related to the cumulative effect adjustment related to the adoption of SFAS 159.

(2) FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* ( FIN 48 ).

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| | Three Months Ended March 31, 2008 | 2007 |
|---|---|---|
| | (Dollars in thousands) | |
| **Comprehensive Income** | $ 73,487 | $ 219,325 |
| Net income | 81 | (156,088) |
| Net change included in comprehensive income | $ 73,568 | $ 63,237 |

**15. Business Segment Information**

Financial data for TDS business segments for the three month period ended or as of March 31, 2008 and 2007 are 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 March 31, 2008 (Dollars in thousands) | U.S. Cellular | TDS Telecom ILEC | TDS Telecom CLEC | Non-Reportable Segment(1) | Other Reconciling Items(2) | Total |
|---|---|---|---|---|---|---|
| Operating revenues | $ 1,037,856 | $ 151,815 | $ 56,129 | $ 11,623 | $ (8,322) | $ 1,249,101 |
| Cost of services and products | 365,053 | 44,834 | 26,333 | 8,479 | (2,316) | 442,383 |
| Selling, general and administrative expense | 407,634 | 42,481 | 17,026 | 1,902 | (5,744) | 463,299 |
| Operating income before depreciation, amortization and accretion, (gain) loss on asset disposals(3) | 265,169 | 64,500 | 12,770 | 1,242 | (262) | 343,419 |
| Depreciation, amortization and accretion expense | 142,530 | 33,624 | 5,884 | 722 | 3,398 | 186,158 |
| (Gain) loss on asset disposals | 3,673 | (21) | | | | 3,652 |
| Operating income (loss) | 118,966 | 30,897 | 6,886 | 520 | (3,660) | 153,609 |
| Significant non-operating items: | | | | | | |
| Equity in earnings of unconsolidated entities | 21,235 | 1 | | | 234 | 21,470 |
| Gain (loss) on investments and financial instruments | | | | | (3,490) | (3,490) |
| Marketable equity securities | 16,404 | | | | 952,907 | 969,311 |
| Investments in unconsolidated entities | 172,586 | 6,528 | | | 45,168 | 224,282 |
| Total assets | 5,926,074 | 1,659,633 | 146,902 | 29,304 | 1,476,500 | 9,238,413 |
| Capital expenditures | 111,690 | 14,646 | 3,436 | 929 | 1,764 | 132,465 |

| **Three Months Ended or as of March 31, 2007 (Dollars in thousands)** | **U.S. Cellular** | **TDS Telecom ILEC** | **TDS Telecom CLEC** | **Non-Reportable Segment (1)** | **Other Reconciling Items(2)** | **Total** |
|---|---|---|---|---|---|---|
| Operating revenues | $ 934,674 | $ 157,592 | $ 61,350 | $ 9,323 | $ (6,382) | $ 1,156,557 |
| Cost of services and products | 318,028 | 49,097 | 28,957 | 7,298 | (1,347) | 402,033 |
| Selling, general and administrative expense | 358,866 | 41,859 | 21,603 | 1,466 | (3,377) | 420,417 |
| Operating income before depreciation, amortization and accretion, (gain) loss on asset disposals(3) | 257,780 | 66,636 | 10,790 | 559 | (1,658) | 334,107 |
| Depreciation, amortization and accretion expense | 145,952 | 34,046 | 5,859 | 632 | 1,516 | 188,005 |
| (Gain) loss on asset disposals | 3,305 | | | | | 3,305 |
| Operating income (loss) | 108,523 | 32,590 | 4,931 | (73) | (3,174) | 142,797 |
| Significant non-operating items: | | | | | | |
| Equity in earnings of unconsolidated entities | 23,098 | | | | 598 | 23,696 |
| Gain (loss) on investments and financial instruments | 12,461 | | | | 243,409 | 255,870 |
| Marketable equity securities | 245,228 | | | | 2,300,027 | 2,545,255 |
| Investments in unconsolidated entities | 171,040 | 3,623 | | | 44,211 | 218,874 |
| | | | | | | |
| Total assets | 5,798,194 | 1,663,824 | 155,870 | 25,001 | 2,777,050 | 10,419,939 |
| Capital expenditures | 109,729 | 16,055 | 2,583 | 1,057 | 1,293 | 130,717 |

(1) Represents Suttle Straus.

(2) Consists of the Corporate operations, intercompany eliminations, TDS Corporate and TDS Telecom marketable equity securities and other corporate investments.

(3) The amount of operating income before depreciation, amortization and accretion and (gain) loss on asset disposals is a non-GAAP financial measure. The 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 our 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 in the wireless industry 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 U.S. GAAP, as an alternative to cash flows from operating activities, as determined in accordance with U.S. 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 in the wireless industry, TDS believes that operating cash flow provides some commonality of measurement in analyzing operating performance of companies in the wireless industry.

**16. Supplemental Cash Flow Disclosures**

TDS withheld 1,368 Special Common Shares with an aggregate value of $0.1 million in the three months ended March 31, 2008 from employees who exercised stock options or who received distribution of vested restricted stock awards. Such shares were withheld to cover the exercise price of stock options, if applicable, and required tax withholdings. No Common Shares were withheld in the same period. No Special Common Shares or Common Shares were withheld in the three months ended March 31, 2007.

U.S. Cellular withheld 145,827 and 6,950 Common Shares with an aggregate value of $8.6 million and $0.5 million in the three months ended March 31, 2008 and 2007, respectively, from employees who exercised stock options or who received a distribution of vested restricted stock awards. Such shares were withheld to cover the exercise price of stock options, if applicable, and required tax withholdings.

TDS declared a dividend of $0.1025 per share during the first quarter of 2008. This resulted in aggregate dividends of $12.0 million, which were paid in April 2008. This amount is recorded as a component of Other current liabilities in TDS March 31, 2008 Consolidated Balance Sheet.

**17. Subsequent Events**

U.S. Cellular has a $700 million revolving credit facility available for general corporate purposes. U.S. Cellular may select borrowing periods of either seven days or one, two, three or six months. If U.S. Cellular provides less than two days notice of intent to borrow, the related borrowings bear interest at the prime rate less 50 basis points. This credit facility expires in December 2009.

On April 15, 2008, U.S. Cellular borrowed $100 million under its revolving credit facility. These proceeds along with additional cash on hand of $103.5 million were contributed to King Street Wireless and its general partner. King Street Wireless in turn paid $203.5 million to the FCC in order to fulfill its remaining obligation incurred upon the purchase of licenses in Auction 73. See Note 3 - Acquisitions, Divestitures and Exchanges for more information on Auction 73. U.S. Cellular is a limited partner of King Street Wireless and consolidates this entity pursuant to the provisions of FIN 46(R). See Note 4 - Variable Interest Entities for more information on King Street Wireless. U.S. Cellular anticipates repaying the amount borrowed from future cash flows from operations and/or long-term debt financing.

During the period April 1, 2008 through May 7, 2008, TDS settled or has agreed to settle variable prepaid forward contracts related to 46,969,689 Deutsche Telekom shares. These forward contracts were or will be settled prior to their scheduled maturity dates in May 2008 through September 2008. TDS settled or will settle these forward contracts through a combination of delivery of Deutsche Telekom shares and the payment of cash. The Deutsche Telekom shares retained by TDS related to variable prepaid forward contracts that have settled in April and May 2008 were subsequently sold. These early settlements are not expected to have a significant impact on TDS results of operations. After these transactions, TDS will hold 9 million Deutsche Telekom shares and forward contracts related to such shares which mature in June 2008.

**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 26 states to approximately 6.2 million wireless customers and 1.2 million wireline equivalent access lines at March 31, 2008. TDS conducts substantially all of its wireless operations through its 80.8%-owned subsidiary, United States Cellular Corporation ( U.S. Cellular ), and its incumbent local exchange carrier ( ILEC ) and competitive local exchange carrier ( CLEC ) wireline operations through 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 for the year ended December 31, 2007.

**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 March 31, 2008, U.S. Cellular owned or had rights to acquire interests in 260 wireless markets and operated approximately 6,452 cell sites. 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 anticipates 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 quarter of 2008 included the following:

- Total customers increased 4% year-over-year to 6.2 million at March 31, 2008; net retail customer additions were 85,000;

- The retail postpay churn rate was 1.4% per month. Retail postpay customers comprised approximately 86% of U.S. Cellular s customer base as of March 31, 2008;

- Average monthly service revenue per customer increased 7% year-over-year to $52.06;

• Additions to property, plant and equipment totaled $111.7 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, outfit new and remodel existing retail stores and continue the development and enhancements of U.S. Cellular s office systems. Total cell sites in service increased 7% year-over-year to 6,452; and

• To strengthen its operating footprint, 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 was the provisional winning bidder for 152 licenses for an aggregate bid of $300.5 million, net of its designated entity discount of 25%. 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.

Service revenues increased $101.5 million, or 12%, to $962.1 million in 2008 from $860.6 million in 2007.  Customer growth and improvements in average monthly revenue per unit have driven increased revenues. U.S. Cellular continues to experience growth in its customer base, primarily in the retail postpay segment. In addition, U.S. Cellular continues to experience increases in average monthly revenue per unit driven by continuing migration of customers to national, wide area and family service plans and growth in revenues from data products and services.

Operating Income increased $10.4 million, or 10%, to $119.0 million in 2008 from $108.5 million in 2007. Operating income margin (as a percent of service revenues) was 12.4% in 2008 compared to 12.6% in 2007.

U.S. Cellular anticipates that there will be continued pressure on its operating income and operating income margin in the next few years related to the following factors:

- increasing penetration in the wireless industry;
- costs of customer acquisition and retention, such as equipment subsidies and advertising;
- effects of competition;
- providing service in recently launched areas or potential new market areas;
- potential increases in prepaid and reseller customers as a percentage of U.S. Cellular s customer base;
- costs of developing and introducing new products and services;
- continued enhancements to its wireless networks, including potential deployments of new technology;
- increasing costs of regulatory compliance; and
- uncertainty in future eligible telecommunication carrier ( ETC ) funding.

In addressing these challenges, U.S. Cellular will continue to focus on improving customer satisfaction and enhancing the quality of its networks, its product and service offerings and its sales distribution.

See Results of Operations Wireless.

**TDS Telecom** - TDS Telecom provides high-quality telecommunication services, including full-service local exchange service, long distance telephone service, and Internet access, to rural and suburban area communities. TDS Telecom s business plan is designed for a full-service telecommunications company, including competitive local exchange carrier operations ( CLEC ), by leveraging TDS Telecom s strength as an incumbent local exchange carrier ( ILEC ). TDS Telecom s strategy is to be the preferred provider of telecommunications services including voice, broadband, and video services in its chosen markets. This strategy encompasses many components, including developing service and product, market and customer strategies; investing in networks and deploying advanced technologies; monitoring the competitive environment; advocating with respect to state and federal regulation for positions that support its ability to provide advanced telecommunications services to its customers; and exploring transactions to acquire or divest properties that would result in strengthening its operations.

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

Overall equivalent access lines served by TDS Telecom as of March 31, 2008 decreased 2% compared to March 31, 2007, while physical access lines declined 5% as of March 31, 2008 compared to March 31, 2007. Equivalent access lines are the sum of physical access lines and high-capacity data lines adjusted to estimate the equivalent number of physical access lines in terms of capacity. A physical access line is an individual circuit connecting a customer to a telephone company s central office facilities.

Operating revenues decreased $11.5 million, or 5.3% to $206.1 million in the three months ended March 31, 2008 from $217.6 million in 2007. The decrease in 2008 was primarily due to a decline in ILEC and CLEC physical access lines, lower rates from bundling promotions and a decrease in network usage by inter-exchange carriers.

Operating income remained substantially unchanged at $37.8 million in 2008 compared to $37.5 million in 2007, as decreased revenues were offset by lower costs. Operating margins improved in 2008 to 18.3% from 17.2% in 2007. The increase in 2008 was primarily due to cost reduction initiatives.

See Results of Operations Wireline.

**Cash Flows and Investments** - TDS and its subsidiaries had cash and cash equivalents totaling $1,209.8 million, availability under their revolving credit facilities of $1,296.4 million, and additional bank lines of credit of $25 million as of March 31, 2008. Also, during the quarter ended March 31, 2008, TDS and its subsidiaries generated $269.0 of cash flows from operating activities. Management believes that cash on hand, expected future cash flows from operating activities and sources of external financing provide substantial financial flexibility and are sufficient to permit TDS and its subsidiaries to finance their contractual obligations and anticipated capital expenditures for the foreseeable future.

See Financial Resources and Liquidity and Capital Resources for additional information related to cash flows and investments.

**Recent Developments**

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007, before the FCC for comment are proposals made by the Federal-State Joint Board and by the FCC itself to change the universal service high cost fund in various ways. On April 29, 2008, the FCC adopted an interim "cap" on the high cost program for funding that goes to competitive ETCs, limiting total high cost funding for the state to the levels being provided to all such carriers in that state in March 2008, with an exemption from the cap for carriers serving tribal lands and Alaskan Native Lands. The cap, which will be of indefinite duration, will result in wireless ETCs, such as U.S. Cellular, receiving less support than they would have been otherwise eligible to receive while the cap is in effect, as overall support will not increase as a carrier adds customers or as new competitive carriers are granted ETC status in the state. The decision to cap overall funding to competitive ETCs will not impact the wireline carriers owned by TDS Telecom. The FCC will also consider the other changes in the Federal Universal Service Fund ( USF ) discussed in our Form 10-K.

**RESULTS OF OPERATIONS - CONSOLIDATED**

| Three Months Ended March 31, | 2008 | Increase/ (Decrease) | Percentage Change | 2007 |
|---|---|---|---|---|
| | | (Dollars in thousands) | | |
| **Operating revenues** | | | | |
| U.S. Cellular | $ 1,037,856 | $ 103,182 | 11.0% | $ 934,674 |
| Telecom | 206,076 | (11,546) | (5.3)% | 217,622 |
| All other(1) | 5,169 | 908 | 21.3% | 4,261 |
| Total operating revenues | 1,249,101 | 92,544 | 8.0% | 1,156,557 |
| **Operating expenses** | | | | |
| U.S. Cellular | 918,890 | 92,739 | 11.2% | 826,151 |
| Telecom | 168,293 | (11,808) | (6.6)% | 180,101 |
| All other(1) | 8,309 | 801 | 10.7% | 7,508 |
| Total operating expenses | 1,095,492 | 81,732 | 8.1% | 1,013,760 |
| **Operating income (loss)** | | | | |
| U.S. Cellular | 118,966 | 10,443 | 9.6% | 108,523 |
| Telecom | 37,783 | 262 | 0.7% | 37,521 |
| All other(1) | (3,140) | 107 | 3.3% | (3,247) |
| Total operating income (loss) | 153,609 | 10,812 | 7.6% | 142,797 |
| **Other income and (expenses)** | | | | |
| Equity in earnings of unconsolidated entities | 21,470 | (2,226) | (9.4)% | 23,696 |
| Interest and dividend income | 9,746 | (6,450) | (39.8)% | 16,196 |
| Gain (loss) on investments and financial instruments | (3,490) | (259,360) | (101.4)% | 255,870 |
| Interest expense | (41,380) | 16,421 | 28.4% | (57,801) |
| Other income (expense) | (199) | 2,025 | 91.1% | (2,224) |
| Income tax expense | (49,251) | 91,987 | 65.1% | (141,238) |
| Minority share of income | (17,018) | 953 | 5.3% | (17,971) |
| Preferred dividend requirement | (13) | | 0.0% | (13) |
| **Net Income Available to Common** | $ 73,474 | $ (145,838) | (66.5)% | $ 219,312 |
| **Basic Earnings Per Share** | $ 0.62 | $ (1.26) | (67.0)% | $ 1.88 |
| **Diluted Earnings Per Share** | $ 0.62 | $ (1.23) | (66.5)% | $ 1.85 |

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(1) Consists of Suttle Straus printing and distribution operations, Corporate Operations and intercompany eliminations

**Operating Revenues**

The increase in operating revenues primarily reflects growth in wireless customers and average monthly service revenue per wireless customer. U.S. Cellular revenue growth reflects wireless customer growth of 4% in 2008, and growth in average monthly service revenue per wireless customer of 7% in 2008. TDS Telecom operating revenues decreased primarily reflecting a decline in ILEC and CLEC physical access lines, lower rates from bundling promotions and a decrease in network usage by inter-exchange carriers. Equivalent access lines decreased 2% from March 31, 2007 to March 31, 2008.

**Operating Expenses**

The increase primarily reflects costs associated with acquiring customers and serving and retaining its expanding customer base at U.S. Cellular.

**Operating Income**

The increase in operating income from 2007 to 2008 reflects higher operating revenues at U.S. Cellular.

**Equity in earnings of unconsolidated entities**

Equity in earnings of unconsolidated entities represents TDS share of net income from markets in which it has a minority interest and that are accounted for by the equity method. TDS follows the equity method of accounting for minority interests in which its ownership interest equals or exceeds 20% for corporations and 3% for partnerships and limited liability companies.

TDS investment in the Los Angeles SMSA Limited Partnership ( LA Partnership ) contributed $15.8 million and $18.0 million in equity in earnings from unconsolidated entities in 2008 and 2007, respectively.

**Interest and dividend income**

The decrease in interest and dividend income in 2008 is primarily due to a lower interest rate paid on cash balances in 2008 than 2007. This was due to both a decline in short-term interest rates in the first quarter of 2008 compared to the first quarter of 2007, and a change in TDS cash investments during each quarter. During the first quarter of 2008, TDS invested substantially all of its cash balances in money market funds that invest exclusively in short-term U.S. Treasury securities. During the first quarter of 2007, TDS invested substantially all of its cash balances in prime money market funds.

**Gain (loss) on investments and financial instruments**

Gain (loss) on investments and financial instruments for 2008 includes a $357.2 loss attributable to a decrease in the fair value of Deutsche Telekom ordinary shares. This loss was largely offset by a $353.7 gain on the collar portions of the variable prepaid forward contracts related to such Deutsche Telekom ordinary shares. Effective January 1, 2008, TDS adopted Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* ( SFAS 159 ) for the Deutsche Telekom ordinary shares and the collar portions of the variable prepaid forward contracts related to such shares. As a result, after January 1, 2008, changes in the fair value of the Deutsche Telekom ordinary shares are recorded in the Statement of Operations. Prior to the adoption of SFAS 159, gains and losses on the Deutsche Telekom ordinary shares were recorded as a component of Accumulated other comprehensive income, a balance sheet account.

Gain (loss) on investments and financial instruments for 2007 primarily includes $239.7 million and $15.8 million of gains attributable to the collar portions of the variable prepaid forward contracts related to TDS Deutsche Telekom and Vodafone Group Plc holdings, respectively.

See Note 5 - Fair Value Measurements in the Notes of the Consolidated Financial Statements, for more information on the adoption of SFAS 159, and further detail on the components of Gain (loss) on investments and financial instruments in each period.

**Interest expense**

The decrease in interest expense in 2008 was primarily due to a decrease in interest incurred on variable prepaid forward contracts ($14.5 million) due to the settlement of prepaid forward contacts with an aggregate principal amount of $1,079.7 million in 2007 and the first quarter of 2008, and a decrease in interest related to U.S. Cellular s revolving credit facility ($1.9 million).

**Other income (expense)**

Borrowing costs on the variable prepaid forward contracts decreased $1.2 million in 2008 compared to 2007.

**Income tax expense**

The effective tax rate on Income from Continuing Operations Before Income Taxes and Minority Interest was 35.2% and 37.3% for the three months ended March 31, 2008 and 2007, respectively. The effective tax rate for the 2008 period was attributable to lower state income tax rates applicable to taxable gains recorded in the first quarter of 2008.

**Minority share of income**

Minority share of income includes the minority public shareholders share of U.S. Cellular s net income, the minority shareholders or partners share of certain U.S. Cellular subsidiaries net income or loss and other TDS minority interests.

| | Three Months Ended March 31, 2008 | 2007 |
|---|---|---|
| | (Dollars in thousands) | |
| Minority Share of Income | | |
| U.S. Cellular | | |
| Minority Public Shareholders | $ (13,483) | $ (14,466) |
| Minority Shareholders or Partners | (3,462) | (3,511) |
| | (16,945) | (17,977) |
| Other | (73) | 6 |
| | $ (17,018) | $ (17,971) |

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**RESULTS OF OPERATIONS WIRELESS**

TDS provides wireless telephone service through United States Cellular Corporation ( U.S. Cellular ), an 80.8%-owned subsidiary. U.S. Cellular owns, manages and invests in wireless markets throughout the United States. Growth in the customer base is the primary reason for the change in U.S. Cellular s results of operations in 2008 from 2007. The number of customers increased 4% to 6,201,000 at March 31, 2008, from 5,973,000 at March 31, 2007, due to customer additions from its marketing channels and acquisition, divestitures and exchange activities.

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

| **As of March 31,(1)** | **2008** | **2007** |
|---|---|---|
| Total market population of consolidated operating markets(2) | 45,262,000 | 44,416,000 |
| Customers(3) | 6,201,000 | 5,973,000 |
| Market penetration(2) | 13.7% | 13.4% |
| Total full-time equivalent employees | 8,105 | 7,484 |
| Cell sites in service | 6,452 | 6,004 |

| **For the Three Months Ended March 31,(4)** | | **2008** | | **2007** |
|---|---|---|---|---|
| Net customer additions(5) | | 80,000 | | 152,000 |
| Net retail customer additions(5) | | 85,000 | | 146,000 |
| Average monthly service revenue per customer(6) | $ | 52.06 | $ | 48.69 |
| Retail postpay churn rate per month(7) | | 1.4% | | 1.3% |
| Total postpay churn rate per month(7) | | 1.5% | | 1.5% |

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

(2) Calculated using 2007 and 2006 Claritas population estimates for 2008 and 2007, respectively. Total market population of consolidated operating markets is used only for the purposes of calculating market penetration of consolidated operating markets, which is calculated by dividing customers by the total market population (without duplication of population in overlapping markets).

The total market population and penetration measures for consolidated operating markets apply to markets in which U.S. Cellular provides wireless service to customers. For comparison purposes, total market population and penetration related to all consolidated markets in which U.S. Cellular owns an interest were 82,846,000 and 7.5%, and 56,048,000 and 10.7% as of March 31, 2008 and 2007, respectively.

As of March 31, 2008, U.S. Cellular had rights to acquire majority interests in 19 licenses, resulting from an exchange transaction with AT&T Wireless (now part of AT&T) that closed in August 2003. As of April 10, 2008, U.S. Cellular exercised its rights to acquire 18 licenses pursuant to this exchange agreement. These licenses will increase total market population of consolidated markets by 1,566,000 to 84,412,000. The exercise of these rights did not require U.S. Cellular to provide any additional consideration to AT&T, other than consideration already provided in conjunction with the August 2003 exchange transaction. Therefore, exercise of these rights did not cause a change in U.S. Cellular s Licenses balance in 2008. U.S. Cellular continues to have a right that does not have a stated expiration date to acquire a majority interest in one license under the exchange agreement.

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

| | March 31, 2008 | 2007 |
|---|---|---|
| Customers on postpay service plans in which the end user is a customer of U.S. Cellular ( postpay customers ) | 5,331,000 | 5,048,000 |
| End user customers acquired through U.S. Cellular s agreement with a third party ( reseller customers )* | 561,000 | 596,000 |
| Total postpay customers | 5,892,000 | 5,644,000 |
| Customers on prepaid service plans in which the end user is a customer of U.S. Cellular ( prepaid customers ) | 309,000 | 329,000 |
| Total customers | 6,201,000 | 5,973,000 |

* Pursuant to its agreement with the third party, U.S. Cellular is compensated by the third party on a postpay basis; as a result, all customers U.S. Cellular has acquired through this agreement are considered to be postpay customers.

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

(5) Net customer additions represents the number of net customers added to U.S. Cellular s overall customer base through all of its marketing distribution channels, excluding any customers transferred through acquisitions, divestitures or exchanges. Net retail customer additions represents the number of net customers added to U.S. Cellular s customer base through its marketing distribution channels, excluding net reseller customers added to its reseller customer base and excluding any customers transferred through acquisitions, divestitures or exchanges.

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

| | Three Months Ended March 31, 2008 | 2007 |
|---|---|---|
| Service revenues per Consolidated Statements of Operations (000s) | $ 962,094 | $ 860,583 |
| Divided by average customers during period (000s)* | 6,160 | 5,892 |
| Divided by number of months in each period | 3 | 3 |
| Average monthly service revenue per customer | $ 52.06 | $ 48.69 |

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

(7) Postpay churn rate per month represents the percentage of the postpay customer base that disconnects service each month. Retail postpay churn rate includes only retail customers; total postpay churn rate includes both retail and reseller customers.

**Components of Operating Income**

| **Three Months Ended March 31, (Dollars in thousands)** | **2008** | **Increase/ (Decrease)** | **Percentage Change** | **2007** |
|---|---|---|---|---|
| Retail service | $ 834,213 | $ 79,698 | 10.6% | $ 754,515 |
| Inbound roaming | 54,089 | 12,821 | 31.1% | 41,268 |
| Long-distance and other | 73,792 | 8,992 | 13.9% | 64,800 |
| Service revenues | 962,094 | 101,511 | 11.8% | 860,583 |
| Equipment sales | 75,762 | 1,671 | 2.3% | 74,091 |
| Total Operating Revenues | 1,037,856 | 103,182 | 11.0% | 934,674 |

| | | | | |
|---|---|---|---|---|
| System operations (excluding Depreciation, amortization and accretion reported below) | 191,016 | 23,732 | 14.2% | 167,284 |
| Cost of equipment sold | 174,037 | 23,293 | 15.5% | 150,744 |
| Selling, general and administrative | 407,634 | 48,768 | 13.6% | 358,866 |
| Depreciation, amortization and accretion | 142,530 | (3,422) | (2.3)% | 145,952 |
| Loss on asset disposals, net | 3,673 | 368 | 11.1% | 3,305 |
| Total Operating Expenses | 918,890 | 92,739 | 11.2% | 826,151 |
| Total Operating Income | $ 118,966 | $ 10,443 | 9.6% | $ 108,523 |
| | | | | |
| Operating Income Margin (as a percent of service revenues) | 12.4% | | | 12.6% |

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**Operating Revenues**

***Service revenues***

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

The increase in service revenues was due to the growth in the average customer base, which increased 5% to 6.2 million in 2008 from 5.9 million in 2007 and higher monthly service revenue per customer; monthly service revenue per customer averaged $52.06 in the first three months of 2008 and $48.69 in the first three months of 2007.

***Retail service revenues***

The increase in retail service revenues in 2008 was due primarily to growth in U.S. Cellular s average customer base and an increase in average monthly retail revenue per customer.

The increase in the average number of customers each year was primarily driven by the net retail customer additions that U.S. Cellular generated from its marketing distribution channels. The average number of customers also was affected by the timing of acquisitions, divestitures and exchanges.

U.S. Cellular anticipates that its customer base will increase during 2008 as a result of its continuing focus on customer satisfaction, attractively priced service plans, a broader line of handsets and other products, and improvements in distribution. U.S. Cellular believes growth in its customer base will be primarily from capturing wireless users switching from other wireless carriers or increasing the number of multi-device users rather than by adding users that are new to the industry. However, the level of growth in the customer base for 2008 will depend upon U.S. Cellular s ability to attract new customers and retain existing customers in a highly, and increasingly, competitive marketplace. See Overview - 2008 Estimates above for U.S. Cellular s estimate of net retail customer additions for 2008.

The increase in average monthly retail service revenue was driven primarily by growth in revenues from data services and higher regulatory fees such as universal service fund contributions that are billed to customers. Average monthly retail service revenues per customer increased 6% to $45.14 in 2008 from $42.69 in 2007.

Monthly local retail minutes of use per customer averaged 948 in 2008 and 783 in 2007. The increase in 2008 was primarily driven by U.S. Cellular s focus on designing sales incentive programs and customer billing rate plans to stimulate overall usage. The impact on retail service revenues of the increase in average monthly minutes of use was offset by a decrease in average revenue per minute of use. The decrease in average revenue per minute of use reflects the impact of increasing competition, which has led to the inclusion of an increasing number of minutes in package pricing plans and the inclusion of features such as unlimited night and weekend minutes and unlimited mobile-to-mobile minutes in certain pricing plans. U.S. Cellular anticipates that its average revenue per minute of use may continue to decline in the future, reflecting increased competition and continued penetration of the consumer market.

Revenues from data products and services grew significantly year-over-year, totaling $115.7 million in 2008 and $77.5 million in 2007, and representing 12% of total service revenues in 2008 compared to 9% of total service revenues in 2007. Such growth, which positively impacted average monthly retail service revenues per customer, reflected customers continued increasing acceptance and usage of U.S. Cellular s **easy**edge[SM] products and offerings, such as Short Messaging Service ( SMS ) and Smartphone handsets and service.

***Inbound roaming revenues***

The increase in inbound roaming revenues in 2008 was related primarily to an increase in roaming minutes of use. The increase in inbound roaming minutes of use was driven primarily by the overall growth in the number of customers and retail minutes of use per customer throughout the wireless industry, including usage related to data products, leading to an increase in inbound traffic from other wireless carriers.

U.S. Cellular anticipates that inbound roaming minutes of use might continue to grow over the next few years, reflecting continuing industry-wide growth in customers and usage per customer, including increased usage of data services while roaming, but that the rate of growth will decline due to higher penetration, slower overall growth in the consumer wireless market and the consolidation of wireless carriers. U.S. Cellular anticipates that its roaming revenue per minute of use will remain fairly constant over the next few years pursuant to its existing contract rates, but that renewal of these contracts and the negotiation of new contracts will reflect lower rates over time.

***Long-distance and other revenues***

In 2008, the increase reflected a $9.3 million increase in other revenues, partially offset by a $0.4 million decrease in long-distance revenues. The growth in other revenues was due primarily to an increase in ETC funds that were received from the USF. In 2008 and 2007, U.S. Cellular was eligible to receive ETC funds in eleven and seven states, respectively; the ETC revenue amounts recorded in 2008 and 2007 were $30.5 million and $22.5 million, respectively.

***Equipment sales revenues***

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

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

The increase in 2008 equipment sales revenues was driven by an increase of 3% in average revenue per handset sold, primarily reflecting the sale of more expensive handsets with expanded capabilities.

**Operating Expenses**

***System operations expenses (excluding Depreciation, amortization, and accretion)***

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

- maintenance, utility and cell site expenses increased $12.1 million, or 18%, in 2008, primarily driven by increases in the number of cell sites within U.S. Cellular s network, resulting in higher cell site rent expense, and software maintenance costs to support rapidly growing data needs. The number of cell sites totaled 6,452 in 2008 and 6,004 in 2007, as U.S. Cellular continued to grow by expanding and enhancing coverage in its existing markets and also through acquisitions of existing wireless operations;

- expenses incurred when U.S. Cellular s customers used other carriers networks while roaming increased $8.1 million, or 22%, in 2008. The increase is due to an increase in roaming minutes of use driven by customer migration to national and wide area plans; and

- the cost of network usage on U.S. Cellular s systems increased $3.6 million, or 6%, in 2008, as total minutes used on U.S. Cellular s systems increased 23% in 2008, primarily driven by continued migration to pricing plans with a larger number of packaged minutes, mostly offset by the ongoing reduction in the per-minute cost of usage for U.S. Cellular s network. In addition, data network and developer costs increased driven by the increase in data usage.

Management expects total system operations expenses to increase over the next few years, driven by the following factors:

- increases in the number of cell sites and other network facilities within U.S. Cellular s systems as it continues to add capacity and enhance quality in most markets and continues development activities in recently launched markets; and

- increases in minutes of use, both on U.S. Cellular s network and by U.S. Cellular s customers on other carriers networks when roaming.

These factors are expected to be partially offset by anticipated decreases in the per-minute cost of usage both on U.S. Cellular s network and on other carriers networks.

***Cost of equipment sold***

The increase in Cost of equipment sold was due primarily to a 16% increase in the average cost per handset due to a shift to the sale of more expensive handsets with expanded capabilities. U.S. Cellular believes that the expanded capabilities will drive increases in data revenues.

***Selling, general and administrative expenses***

Selling, general and administrative expenses primarily consist of salaries, commissions and expenses of field sales and retail personnel and facilities; telesales department salaries and expenses; agent commissions and related expenses; corporate marketing and merchandise management; advertising; and public relations expenses. Selling, general and administrative expenses also include the costs of operating U.S. Cellular s customer care centers and the majority of U.S. Cellular s corporate expenses.

The increase in selling, general and administrative expenses in 2008 was due primarily to higher expenses associated with acquiring, serving and retaining customers, driven in part by an increase in U.S. Cellular s customer base in 2008; increased regulatory charges and taxes also are a factor. Key components of the increases in selling, general and administrative expenses were as follows:

- advertising expenses increased $15.7 million, or 38%, in 2008, primarily due to an increase in media purchases;

- other selling and marketing expenses increased $8.9 million, or 7%, in 2008, reflecting more retail sales associates, higher commissions due to a greater number of customer renewal transactions and higher retail facility expenses; and

- general and administrative expenses increased $24.2 million, or 13%, in 2008, due to increases related to bad debts expense, reflecting both higher revenues and slightly higher bad debts experience as a percent of revenues, federal universal service fund contributions and other regulatory fees and taxes due to an increase in the contribution rate and an increase in service revenues, and increases in expenses related to the operations of U.S. Cellular s regional support offices, primarily due to the increase in the customer base.

***Depreciation expense***

Depreciation expense was relatively flat compared to the prior year.

See Financial Resources and Liquidity and Capital Resources for further discussions of U.S. Cellular s capital expenditures.

***Amortization and accretion expenses***

Amortization expense decreased $3.3 million in 2008, primarily due to a customer list becoming fully amortized in April 2007.

In accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations* ( SFAS 143 ), U.S. Cellular accretes liabilities for future remediation obligations associated with leased properties. Such accretion expense totaled $2.3 million in 2008 and 2007, respectively.

***Loss on asset disposals, net***

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

**2008 Estimates**

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

The following are U.S. Cellular s estimates of full year 2008 net retail customer additions; service revenues; operating income; depreciation, amortization and accretion expenses; and capital expenditures. Such estimates represent U.S. Cellular s views as of the date of the filing of U.S. Cellular s Form 10-Q for the three months ended March 31, 2008. Such forward-looking statements should not be assumed to be accurate as of any future date. U.S. Cellular undertakes no duty to update such information whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from such estimated results.

| | **2008 Estimated Results** | **2007 Actual Results** |
|---|---|---|
| Net retail customer additions | 200,000-275,000 | 333,000 |
| Service revenues | $3,900-$4,000 million | $3,679.2 million |
| Operating income | $435-$510 million | $396.2 million |
| Depreciation, amortization and accretion expenses(1) | Approx. $615 million | $637.1 million |
| Capital expenditures | $565-$615 million | $565.5 million |

(1) Includes losses on exchange and disposals of assets.

**RESULTS OF OPERATIONS WIRELINE**

TDS operates its wireline operations through TDS Telecommunications Corporation ( TDS Telecom ), a wholly-owned subsidiary. TDS Telecom served 1,193,800 equivalent access lines at March 31, 2008, a decrease of 25,800 lines from the 1,219,600 equivalent access lines served at March 31, 2007. Equivalent access lines are the sum of the physical access lines and high-capacity data lines adjusted to estimate the equivalent number of physical access lines in terms of capacity. A physical access line is the individual circuit connecting a customer to a telephone company s central office facilities. Each digital subscriber line ( DSL ) is treated as an equivalent line in addition to a voice line that may operate on the same copper loop.

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

TDS Telecom s ILEC subsidiaries served 767,100 equivalent access lines at March 31, 2008, an increase of 3,700 lines from the 763,400 equivalent access lines served at March 31, 2007. Acquisitions added 1,100 equivalent access lines in 2008.

TDS Telecom s CLEC served 426,700 equivalent access lines at March 31, 2008, a decrease of 29,500 lines from the 456,200 served at March 31, 2007. The decline in 2008 is the result of a continual shift in focus from residential to commercial customers.

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

| **As of or at March 31,** | **2008** | **2007** |
|---|---|---|
| ILEC | | |
| Equivalent access lines | 767,100 | 763,400 |
| Access lines | 579,200 | 610,300 |
| Digital subscriber line (DSL) accounts | 154,800 | 118,000 |
| Dial-up Internet service accounts | 49,000 | 71,100 |
| Long-distance customers | 344,900 | 343,800 |
| | | |
| CLEC | | |
| Equivalent access lines | 426,700 | 456,200 |
| Digital subscriber line (DSL) accounts | 43,100 | 42,600 |
| Dial-up Internet service accounts | 6,800 | 10,200 |

**TDS Telecom**

**Components of Operating Income**

| **Three months ended March 31,**<br>**(Dollars in thousands)** | **2008** | **Increase/ (Decrease)** | **Percentage Change** | **2007** |
|---|---|---|---|---|
| Operating revenues | | | | |
| ILEC revenues | $ 151,815 | $ (5,777) | (3.7)% | $ 157,592 |
| CLEC revenues | 56,129 | (5,221) | (8.5)% | 61,350 |
| Intra-company elimination | (1,868) | (548) | (41.5)% | (1,320) |
| Telecom operating revenues | 206,076 | (11,546) | (5.3)% | 217,622 |
| | | | | |
| Operating expenses | | | | |
| ILEC expenses | 120,918 | (4,084) | (3.3)% | 125,002 |
| CLEC expenses | 49,243 | (7,176) | (12.7)% | 56,419 |
| Intra-company elimination | (1,868) | (548) | (41.5)% | (1,320) |
| Telecom operating expenses | 168,293 | (11,808) | (6.6)% | 180,101 |
| | | | | |
| TDS Telecom operating income | $ 37,783 | $ 262 | 0.7% | $ 37,521 |

**Operati**