

TELEPHONE & DATA SYSTEMS INC /DE/

Form 10-Q

November 05, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2008**

OR

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

For the transition period from _____ to _____

Commission File Number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

30 North LaSalle Street, Chicago, Illinois 60602

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(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Class	Outstanding at September 30, 2008
Common Shares, \$.01 par value	53,197,083 Shares
Special Common Shares, \$.01 par value	55,457,401 Shares
Series A Common Shares, \$.01 par value	6,457,683 Shares

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Telephone and Data Systems, Inc.

Quarterly Report on Form 10-Q

For the Period Ended September 30, 2008

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Signatures

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars and shares in thousands, except per share amounts)			
Operating Revenues	\$ 1,304,598	\$ 1,236,885	\$ 3,828,050	\$ 3,586,276
Operating Expenses				
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	461,302	433,396	1,356,530	1,247,936
Selling, general and administrative expense	496,082	477,305	1,436,680	1,333,566
Depreciation, amortization and accretion expense	187,975	189,933	562,159	565,634
Loss on asset disposals, net	7,100	1,762	17,190	7,899
Total Operating Expenses	1,152,459	1,102,396	3,372,559	3,155,035
Operating Income	152,139	134,489	455,491	431,241
Investment and Other Income (Expense)				
Equity in earnings of unconsolidated entities	22,566	23,823	66,945	71,394
Interest and dividend income	8,617	18,687	35,818	182,651
Interest expense	(31,684)	(49,730)	(108,634)	(162,776)
Gain (loss) on investments and financial instruments	31,997	194,036	31,595	229,707
Other, net	383	(865)	2,086	(4,957)
Total Investment and Other Income (Expense)	31,879	185,951	27,810	316,019
Income Before Income Taxes, Minority Interest and Extraordinary Item	184,018	320,440	483,301	747,260
Income tax expense	61,024	115,907	163,536	283,845
Income Before Minority Interest and Extraordinary Item	122,994	204,533	319,765	463,415
Minority share of income, net of tax	(21,771)	(15,623)	(57,298)	(63,807)
Income Before Extraordinary Item	101,223	188,910	262,467	399,608
Extraordinary Item, net of taxes (Note 7)		42,827		42,827
Net Income	101,223	231,737	262,467	442,435
Preferred dividend requirement	(13)	(13)	(39)	(39)
Net Income Available To Common	\$ 101,210	\$ 231,724	\$ 262,428	\$ 442,396
Basic Weighted Average Shares Outstanding	115,700	118,705	116,510	117,526
Basic Earnings Per Share (Note 8)				
Income before extraordinary item	\$ 0.87	\$ 1.59	\$ 2.25	\$ 3.40
Extraordinary item		0.36		0.36

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Net income available to common	\$	0.87	\$	1.95	\$	2.25	\$	3.76
Diluted Weighted Average Shares Outstanding		116,193		119,950		117,065		119,164
Diluted Earnings Per Share (Note 8)								
Income before extraordinary item	\$	0.87	\$	1.57	\$	2.24	\$	3.33
Extraordinary item				0.36				0.36
Net income available to common	\$	0.87	\$	1.93	\$	2.24	\$	3.69
Dividends Per Share	\$	0.1025	\$	0.0975	\$	0.3075	\$	0.2925

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

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Telephone and Data Systems, Inc.

Consolidated Statements of Cash FlowsUnaudited

	Nine Months Ended September 30,	
	2008	2007
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income	\$ 262,467	\$ 442,435
Add (Deduct) adjustments to reconcile net income to net cash flows from operating activities		
Depreciation, amortization and accretion	562,159	565,634
Bad debts expense	59,452	51,131
Stock-based compensation expense	15,961	22,946
Deferred income taxes, net	(298,200)	(195,108)
Gain on investments and financial instruments, net	(31,595)	(229,707)
Equity in earnings of unconsolidated entities	(66,945)	(71,394)
Distributions from unconsolidated entities	51,224	47,871
Minority share of income	57,298	63,807
Loss on asset disposals, net	17,190	7,899
Extraordinary item, net of tax		(42,827)
Noncash interest expense	8,573	15,855
Excess tax benefit from stock awards	(1,832)	(24,530)
Other operating activities	(1,955)	(3,306)
Changes in assets and liabilities		
Change in accounts receivable	(82,857)	(79,571)
Change in inventory	(12,929)	3,312
Change in accounts payable	7,140	(2,439)
Change in customer deposits and deferred revenues	9,827	24,760
Change in accrued taxes	109,269	205,227
Change in accrued interest	5,528	4,295
Change in other assets and liabilities	(37,951)	(30,543)
	631,824	775,747
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(485,028)	(463,019)
Cash paid for acquisitions and licenses	(336,259)	(20,569)
Cash received from divestitures	6,838	4,277
Proceeds from disposition of investments	259,017	91,740
Cash paid to settle derivative liabilities	(17,404)	
Other investing activities	(832)	(1,345)
	(573,668)	(388,916)
Cash Flows from Financing Activities		
Issuance of notes payable	100,000	25,000
Issuance of long-term debt		2,857
Repayment of notes payable	(100,000)	(60,000)
Settlement of variable prepaid forward contracts	(47,357)	
Repayment of long-term debt	(8,296)	(2,460)
TDS Common Shares and Special Common Shares reissued for benefit plans, net of tax payments	1,916	109,842

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U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	(1,286)		12,181
Excess tax benefit from stock awards	1,832		24,530
Repurchase of TDS Special Common Shares	(111,769)		(85,584)
Repurchase of U.S. Cellular Common Shares	(23,146)		(65,202)
Dividends paid	(35,783)		(34,337)
Distributions to minority partners	(6,539)		(6,258)
Other financing activities	3,909		(747)
	(226,519)		(80,178)
Net Increase (Decrease) in Cash and Cash Equivalents	(168,363)		306,653
Cash and Cash Equivalents -			
Beginning of period		1,174,446	1,013,325
End of period	\$	1,006,083	\$ 1,319,978

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

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Telephone and Data Systems, Inc.

Consolidated Balance SheetsAssets

	September 30, 2008 (Unaudited)	December 31, 2007
	(Dollars in thousands)	
Current Assets		
Cash and cash equivalents	\$ 1,006,083	\$ 1,174,446
Accounts receivable		
Due from customers, less allowances of \$12,501 and \$16,326, respectively	382,749	379,558
Other, principally connecting companies, less allowances of \$4,521 and \$5,297, respectively	160,422	150,863
Marketable equity securities		1,917,893
Inventory	118,183	115,818
Net deferred income tax asset	27,784	
Prepaid expenses	100,050	77,155
Other current assets	22,054	59,855
	1,817,325	3,875,588
Investments		
Licenses	1,831,526	1,516,629
Goodwill	695,870	679,129
Customer lists, net of accumulated amortization of \$94,687 and \$84,190, respectively	27,736	25,851
Investments in unconsolidated entities	227,425	206,418
Other investments	10,791	11,509
	2,793,348	2,439,536
Property, Plant and Equipment		
In service and under construction	8,497,768	8,064,229
Less accumulated depreciation	5,003,653	4,539,127
	3,494,115	3,525,102
Other Assets and Deferred Charges		
	53,558	53,917
Total Assets	\$ 8,158,346	\$ 9,894,143

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

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

	September 30, 2008 (Unaudited)	December 31, 2007
	(Dollars in thousands)	
Current Liabilities		
Current portion of long-term debt	\$ 6,171	\$ 3,860
Forward contracts		1,005,512
Accounts payable	320,763	308,882
Customer deposits and deferred revenues	176,098	166,191
Accrued interest	23,984	18,456
Accrued taxes	107,200	40,439
Accrued compensation	85,792	91,703
Derivative liability		711,692
Net deferred income tax liability		327,162
Other current liabilities	116,567	125,622
	836,575	2,799,519
Deferred Liabilities and Credits		
Net deferred income tax liability	614,022	555,593
Asset retirement obligation	194,810	173,468
Other deferred liabilities and credits	148,814	154,602
	957,646	883,663
Long-Term Debt		
	1,631,627	1,632,226
Commitments and Contingencies		
Minority Interest		
	694,561	651,537
Preferred Shares		
	854	860
Common Stockholders Equity		
Common Shares, par value \$.01 per share; authorized 100,000,000 shares; issued 56,593,000 and 56,581,000 shares, respectively	566	566
Special Common Shares, par value \$.01 per share; authorized 165,000,000 shares; issued 62,954,000 and 62,946,000 shares, respectively	630	629
Series A Common Shares, par value \$.01 per share; authorized 25,000,000 shares; issued and outstanding 6,458,000 and 6,442,000 shares, respectively	65	64
Capital in excess of par value	2,062,218	2,048,110
Treasury Shares at cost:		
Common Shares, 3,396,000 and 3,433,000 shares, respectively	(118,390)	(120,544)
Special Common Shares, 7,497,000 and 4,712,000 shares, respectively	(313,472)	(204,914)
Accumulated other comprehensive income	(8,338)	511,776
Retained earnings	2,413,804	1,690,651
	4,037,083	3,926,338
Total Liabilities and Stockholders Equity	\$ 8,158,346	\$ 9,894,143

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The accounting policies of Telephone and Data Systems, Inc. (TDS) conform to accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of TDS and its majority-owned subsidiaries, including TDS 81%-owned wireless telephone subsidiary, United States Cellular Corporation (U.S. Cellular®), TDS 100%-owned wireline telephone subsidiary, TDS Telecommunications Corporation (TDS Telecom®) and TDS 80%-owned printing and distribution company, Suttle-Straus, Inc. In addition, the consolidated financial statements include all entities in which TDS has a variable interest that requires TDS to recognize a majority of the entity's expected gains or losses. All material intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the 2008 presentation.

The consolidated financial statements included herein have been prepared by TDS, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, TDS believes that the disclosures included herein are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in TDS Annual Report on Form 10-K for the year ended December 31, 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 September 30, 2008 and December 31, 2007, the results of operations for the three and nine months ended September 30, 2008 and 2007, and the cash flows for the nine months ended September 30, 2008 and 2007. The results of operations for the three and nine months ended September 30, 2008 and cash flows for the nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year.

2. Summary of Significant Accounting Policies

Pension Plan

TDS sponsors a qualified noncontributory defined contribution pension plan. The plan provides benefits for the employees of TDS Corporate, TDS Telecom and U.S. Cellular. Under this plan, pension benefits and costs are calculated separately for each participant and are funded annually. Pension costs were \$4.6 million and \$13.2 million for the three and nine months ended September 30, 2008, respectively; and \$4.1 million and \$11.2 million for the three months and nine months ended September 30, 2007, respectively.

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

Other Postretirement Benefits

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Service Cost	\$ 498	\$ 609	\$ 1,496	\$ 1,827
Interest on accumulated benefit obligation	863	858	2,589	2,574
Expected return on plan assets	(948)	(821)	(2,844)	(2,463)
Amortization of:				
Prior service cost	(207)	(207)	(622)	(622)
Net loss	242	340	726	1,021
Net postretirement cost	\$ 448	\$ 779	\$ 1,345	\$ 2,337

TDS contributed \$3.8 million to the postretirement plans during the third quarter of 2008.

Amounts Collected from Customers and Remitted to Governmental Authorities

TDS records amounts collected from customers and remitted to governmental authorities net within a tax liability account if the tax is assessed upon the customer and TDS merely acts as an agent in collecting the tax on behalf of the governmental authority imposing such tax. 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 \$42.4 million and \$119.7 million for the three and nine months ended September 30, 2008, respectively; and \$39.5 million and \$108.4 million for the three and nine months ended September 30, 2007, respectively.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures related to the use of fair value measures in financial statements. SFAS 157 does not expand the use of fair value measurements in financial statements, but standardizes its definition and guidance in U.S. GAAP. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). SFAS 157 establishes a fair value hierarchy from observable market data as the highest level to an entity's own fair value assumptions about market participant assumptions as the lowest level. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, to defer the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until years beginning after November 15, 2008. TDS adopted SFAS 157 for its financial assets and liabilities effective January 1, 2008. In October 2008, the FASB issued FSP FAS 157-3 to clarify and demonstrate how the fair value of a financial asset is determined when the market for that financial asset is inactive. As of September 30, 2008, TDS did not have any financial assets or liabilities that required the application of SFAS 157 for purposes of reporting such amounts in its Consolidated Balance Sheet. TDS is currently reviewing the requirements of SFAS 157 related to its nonfinancial assets and liabilities which become effective January 1, 2009, and has not yet determined the impact of adoption, if any, on its financial position or results of operations.

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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 SFAS No. 141, *Business Combinations* (SFAS 141). SFAS 141(R) retains the underlying concept of SFAS 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method, a method that requires the acquirer to measure and recognize the acquiree on an entire entity basis and recognize the assets acquired and liabilities assumed at their fair values as of the date of acquisition. However, SFAS 141(R) changes the method of applying the acquisition method in a number of significant aspects, such as requiring the expensing of transaction costs previously capitalized and requiring the accrual at fair value of certain contractual and noncontractual contingencies. SFAS 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS 141(R) amends SFAS No. 109, *Accounting for Income Taxes*, such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141(R) also would be determined in accordance with the provisions of SFAS 141(R). TDS has determined that any transaction costs incurred and capitalized in 2008 for a business combination that will not close until on or after January 1, 2009 will be expensed upon TDS adoption of SFAS 141(R) on January 1, 2009. TDS does not anticipate that this treatment will have a significant impact on its financial position or results of operations. TDS is currently reviewing the remaining requirements of SFAS 141(R) and has not yet determined the impact of adoption, 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 SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries*, to establish new standards that will govern the accounting and reporting of (1) noncontrolling interests (commonly referred to as minority interests) in partially owned consolidated subsidiaries and (2) the loss of control of subsidiaries. SFAS 160 also establishes that once control of a subsidiary is obtained, changes in ownership interests in that subsidiary that do not result in a loss of control shall be accounted for as equity transactions, not as step acquisitions under SFAS 141. SFAS 160 is effective for TDS on a prospective basis beginning January 1, 2009, except for the presentation and disclosure requirements, which will be applied retrospectively. TDS is currently reviewing the requirements of SFAS 160 and has not yet determined the impact of adoption, if any, on its financial position or results of operations.

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

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

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In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for non-governmental entities. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Presenting Fairly in Conformity with Generally Accepted Accounting Principles*. The SEC approved the amendments on September 15, 2008. Therefore, SFAS 162 is effective as of November 15, 2008. TDS does not anticipate that the adoption of SFAS 162 will have an impact on either its financial statements or disclosures.

3. Acquisitions, Divestitures and Exchanges

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

Transactions Pending as of September 30, 2008:

On August 1, 2008, TDS's subsidiary, U.S. Cellular, executed an agreement to acquire 12 megahertz Block C licenses in the Lower 700 megahertz band of the wireless spectrum in three market areas in the state of Missouri for \$11.6 million in cash, including acquisition costs. The transaction is expected to close in the fourth quarter of 2008.

On July 30, 2008, U.S. Cellular signed an agreement to purchase four 700 megahertz licenses in the state of Missouri for \$8.0 million in cash. This transaction is expected to close in the fourth quarter of 2008.

A Federal Communications Commission (FCC) auction of spectrum in the PCS and AWS-1 bands, designated by the FCC as Auction 78, began on August 13, 2008 and closed August 20, 2008. U.S. Cellular participated in Auction 78 indirectly through its interest in Aquinas Wireless, L.P. (Aquinas Wireless). Aquinas Wireless paid \$2.1 million to the FCC for the licenses for which it was the provisional winning bidder in the auction.

U.S. Cellular also participated in the 2008 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). King Street Wireless paid \$300.5 million to the FCC for the licenses for which it was the provisional winning bidder in the auction.

See Note 4 Variable Interest Entities, for further details on Aquinas Wireless and King Street Wireless and the licenses acquired in Auctions 78 and 73.

Transactions Completed as of September 30, 2008:

On May 31, 2008, TDS Telecom acquired 100% of the outstanding shares of Mosinee Telephone Company, LLC for \$17.4 million in cash, including acquisition costs. Mosinee Telephone Company, LLC is a telephone company serving 5,800 equivalent access lines in Wisconsin.

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On May 30, 2008, U.S. Cellular acquired the remaining 50%-ownership interest of North Carolina RSA 1 Partnership, a wireless market operator in which U.S. Cellular had previously owned a 50% non-operating, unconsolidated interest, for \$6.9 million in cash.

On March 28, 2008, U.S. Cellular acquired six 12 megahertz Block C licenses in the Lower 700 megahertz band of the wireless spectrum in Maine for \$5.0 million in cash.

In October 2006, U.S. Cellular's interest in Midwest Wireless Communications, LLC was sold to ALLTEL Corporation. In connection with the sale, U.S. Cellular became entitled to receive approximately \$106.0 million in cash. Of this amount, \$95.1 million was distributed upon closing and \$10.9 million was held in escrow to secure certain true-up, indemnification and other possible adjustments; the funds held in escrow were to be distributed in installments over a period of four to fifteen months following the closing. U.S. Cellular received \$6.6 million and \$4.3 million of funds from the escrow, plus interest of \$0.2 million and \$0.3 million, in the nine months ended September 30, 2008 and 2007, respectively.

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 Oklahoma, West Virginia, Maryland and Iowa, in exchange for U.S. Cellular delivering PCS spectrum in eight licenses covering portions of Illinois. In connection with the exchange, TDS recognized a pre-tax loss of \$20.8 million during the fourth quarter of 2007. This transaction closed on March 19, 2008.

On February 13, 2008, TDS Telecom acquired 100% of the outstanding shares of West Point Telephone Company, a telephone company in Indiana serving 1,100 equivalent access lines, for \$6.8 million in cash, including acquisition costs.

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

	Purchase price (1)	Goodwill(2)	Allocation of Purchase Price		Net tangible assets/(liabilities)
			Licenses (Dollars in thousands)	Customer lists	
<u>U.S. Cellular Acquisitions</u>					
Auction 73 Licenses	\$ 300,479	\$	\$ 300,479	\$	\$
North Carolina RSA 1 Partnership	6,900	1,632	4,180	81	1,007
Maine Licenses	5,000		5,000		
Auction 78 Licenses	2,115		2,115		
Other	1,891	970	623	964	(666)
<u>TDS Telecom Acquisitions</u>					
Mosinee Telephone Company	17,385	9,331		4,300	3,754
West Point Telephone Company	6,757	1,956		499	4,302
Other	151	151			

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Total	\$	340,678	\$	14,040	\$	312,397	\$	5,844	\$	8,397
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(1) \$2.7 million in cash was received from acquired companies and an aggregate of \$1.7 million is recorded as a component of Other current liabilities in TDS September 30, 2008 Consolidated Balance Sheet.

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

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

Table of Contents**4. Variable Interest Entities**

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

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

	FCC Auction	Auction End Date	Date Applications Granted by FCC	Number of Licenses Won	Amount Paid to FCC, Net of Bid Credits (in millions)
Aquinas Wireless	78	August 20, 2008	(1)	5(2)	\$ 2.1
King Street Wireless	73	March 20, 2008	(1)	152(2)	300.5
Barat Wireless	66	September 18, 2006	April 30, 2007	17	127.1
Carroll Wireless	58	February 15, 2005	January 6, 2006	16	129.7

(1) Licenses have not yet been granted by the FCC for Auctions 78 and 73.

(2) Provisionally won.

Although the bidding in Auction 73 and Auction 78 has ended, the FCC has awarded only a few of the licenses to winning bidders. There is no prescribed timeframe for the FCC to review the qualifications of the various winning bidders and award licenses.

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

Aquinas Wireless (1)

King Street Wireless and King Street Wireless, Inc., the general partner of King Street Wireless

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Barat Wireless and Barat Wireless, Inc., the general partner of Barat Wireless

Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless

(1) Aquinas Wireless, Inc., the general partner of Aquinas Wireless is a variable interest entity, but was not consolidated by TDS as of September 30, 2008 because TDS does not currently benefit from or absorb a majority of Aquinas Wireless, Inc.'s expected gains and losses.

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))*, because TDS 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, TDS may agree to make additional capital contributions and/or advances to the variable interest entities.

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Following are a summary of the capital contributions and advances made to each entity and the classification of these amounts in TDS Consolidated Balance Sheet as of September 30, 2008:

	Capital contributions and advances to date	Amount of capital contributions and advances included in Licenses in the Consolidated Balance Sheets
	(in millions)	
Aquinas Wireless	\$ 2.1	\$ 2.1
King Street Wireless & King Street Wireless, Inc.	300.5	300.5
Barat Wireless & Barat Wireless, Inc.	127.3	127.1
Carroll Wireless & Carroll PCS, Inc.	130.1	129.7

U.S. Cellular may agree to make additional capital contributions to the variable interest entities discussed above and/or their general partners to provide additional funding for the development of licenses awarded in the various auctions. 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.

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.

SFAS 157 Adoption

SFAS 157 defines fair value, establishes a framework for measuring fair value in the application of U.S. GAAP, and expands disclosures about fair value measurements. SFAS 157 does not expand the use of fair value measurements in financial statements, but standardizes its definition and application in U.S. GAAP. SFAS 157 provides that fair value is a market-based measurement and not an entity-specific measurement, based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). This pronouncement establishes a fair value hierarchy that contains three levels for inputs used in fair value measurements. Level 1 inputs include quoted market prices for identical assets or liabilities in active markets. Level 2 inputs include quoted market prices for similar assets and liabilities in active markets or quoted market prices for identical assets and liabilities in inactive markets. Level 2 inputs must be observable either directly or indirectly for substantially the full term of the financial instrument. Level 3 inputs are unobservable. As of September 30, 2008, TDS did not have any financial assets or liabilities that required the application of SFAS 157 for purposes of valuing and reporting such amounts in its Consolidated Balance Sheet.

SFAS 159 Adoption

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SFAS 159 permits companies to choose to measure various financial instruments and certain other items at fair value. Pursuant to the provisions of SFAS 159, at the date the option is elected, entities are required to record a cumulative-effect adjustment to beginning retained earnings. In subsequent periods, for those instruments in which the fair value option is elected, unrealized gains and losses are recorded in the Statement of Operations. On January 1, 2008, TDS adopted SFAS 159 for its investment in Deutsche Telekom Ordinary Shares, and also for the collar portions of the variable prepaid forward contracts (forward contracts) related to such Deutsche Telekom stock.

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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, *Accounting for Certain Investments in Debt and Equity Securities*, which required that the unrealized gains and losses on such stock be recorded in Accumulated other comprehensive income, a balance sheet account. Since the related collars did not qualify as cash flow hedges after June 2003, the changes in the fair value of the collars were reported in the Consolidated Statements of Operations in accordance with the requirements of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, 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 were recorded in the Consolidated Statements of Operations as (Gain) loss on investments and financial instruments. Such gains and losses were expected to substantially offset each other, and thus better reflect the economics of the collars, which were established to hedge the variability in the fluctuations of the fair value of the underlying Deutsche Telekom stock.

As a result of the election of SFAS 159 for its Deutsche Telekom stock and related collars, TDS recorded an adjustment to increase the January 1, 2008 beginning retained earnings balance by \$502.7 million, net of \$291.2 million of income taxes. This amount reflects an unrealized gain attributable to the Deutsche Telekom stock of \$647.3 million, net of income taxes of \$374.9 million, offset by an unrealized loss on the related collars of \$144.6 million, net of income taxes of \$83.7 million. The unrealized loss on the collars was attributable to the periods from inception to June 2003. During such periods the collars qualified as cash flow hedges and the changes in the fair value were recorded as a component of Accumulated other comprehensive income.

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

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

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

In the first half of 2008, TDS disposed of all 85,969,689 Deutsche Telekom Ordinary Shares and settled all outstanding forward contracts related to such shares. See Note 11 - Marketable Equity Securities and Variable Prepaid Forward Contracts, for more information on these settlements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,			
	2008	2007	2008	2007		
(Dollars in thousands)						
Gains (losses) on marketable equity securities and derivative instruments						
<u>Deutsche Telekom:</u>						
Gain on disposition of securities(1)	\$	\$	366,684	\$	\$	366,684
Loss on the settlement of variable prepaid forward contracts(1)			(117,825)			(117,825)
(Decrease) in the fair value of securities (asset)					(294,827)	
(Increase)/decrease in the fair value of the embedded collars in the variable prepaid forward contracts (liability)			(48,915)		295,389	(132,121)
			199,944		562	116,738
<u>Vodafone Group Plc:</u>						
Gain on disposition of securities(1)						127,207
Gain on the settlement of variable prepaid forward contracts(1)						4,478
(Increase) in the fair value of the embedded collars in the variable prepaid forward contracts (liability)			(5,908)			(25,450)
			(5,908)			106,235
<u>VeriSign:</u>						
Gain on disposition of securities(1)						6,234
Increase in the fair value of securities (asset)						5,171
(Increase) in the fair value of the embedded collars in the variable prepaid forward contracts (liability)						(4,671)
						6,734
<u>Rural Cellular Corporation:(2)</u>						
Gain on disposition of securities			31,725			31,725
Other gains (losses)			272			(692)
	\$		31,997	\$		194,036
				\$		31,595
				\$		229,707

(1) TDS and its subsidiaries held Vodafone American Depositary Receipts (ADRs), VeriSign Common Shares and Deutsche Telekom Ordinary Shares which were obtained in connection with the sale of non-strategic investments. TDS entered into a number of variable prepaid forward contracts (forward contracts) related to the Vodafone ADRs, VeriSign and Deutsche Telekom securities that it held. During 2007 and the first six months of 2008, all forward contracts related to the Vodafone ADRs, VeriSign shares, and Deutsche Telekom shares were settled, and all remaining shares of these securities were sold. As a result, at September 30, 2008, TDS no longer owned Vodafone ADRs, VeriSign Common Shares and Deutsche Telekom Ordinary Shares, and no longer had any liability or other obligations under the related forward contracts.

(2) See Note 11 - Marketable Equity Securities and Variable Prepaid Forward Contracts, for additional information on this transaction.

Table of Contents**6. Income Taxes**

The overall effective tax rate on income before income taxes and minority interest for the three and nine months ended September 30, 2008 was 33.2% and 33.8%, respectively, and for the three and nine months ended September 30, 2007 was 36.2% and 38.0%, respectively. The effective tax rate for the three months ended September 30, 2008 is lower than the rate for the three months ended September 30, 2007, primarily due to lower state income tax expense resulting from a change in the filing method in one state. The effective tax rate for the nine months ended September 30, 2008 is lower than the rate for the nine months ended September 30, 2007 primarily due to the change in the state income tax filing method described above and the recognition of state tax benefits related to the disposition of Deutsche Telekom Ordinary Shares and the settlement of the related variable prepaid forward contracts in 2008.

7. Extraordinary Item

Prior to the third quarter of 2007, TDS Telecom's incumbent local exchange carrier (ILEC) operations followed the accounting for regulated enterprises prescribed by 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 the TDS Telecom ILEC operations.

TDS Telecom regularly monitored the appropriateness of the application of SFAS 71. Changes in TDS Telecom's business environment had caused competitive forces to surpass regulatory forces such that TDS Telecom concluded that it was no longer reasonable to assume that rates set at levels that would recover the enterprise's cost could be charged to its customers.

TDS Telecom has experienced increasing access line losses due to increasing levels of competition across all of the ILEC service areas. Competition intensified in 2007 from cable and wireless operators who have been extending their investment beyond major markets to enable a broader range of voice and data services that compete directly with TDS Telecom's service offerings. These alternative telecommunications providers have transformed a pricing structure historically based on the recovery of costs to a pricing structure based on market conditions. Consequently, TDS Telecom had to alter its strategy to compete in its markets. Specifically, in the third quarter of 2007, TDS Telecom initiated an aggressive program of service bundling and deep discounting and made the decision to voluntarily exit certain revenue pools administered by the FCC-supervised National Exchange Carrier Association in order to achieve additional pricing flexibility to meet competitive pressures.

Based on these material factors impacting its operations, management determined in the third quarter of 2007 that it was no longer appropriate to continue the application of SFAS 71 for reporting its financial results. Accordingly, TDS Telecom recorded a non-cash extraordinary gain of \$42.8 million, net of taxes of \$27.0 million, upon discontinuance of the provisions of SFAS 71, as required by the provisions of SFAS No. 101, *Regulated Enterprises - Accounting for the Discontinuation of the Application of FASB Statement No. 71*. The components of the non-cash extraordinary gain are as follows:

	Before Tax Effects	After Tax Effects
	(Dollars in thousands)	
Write-off of regulatory cost of removal	\$ 70,107	\$ 43,018
Write-off of other net regulatory assets	(259)	(191)
Total	\$ 69,848	\$ 42,827

In conjunction with the discontinuance of SFAS 71, TDS Telecom assessed the useful lives of fixed assets and determined that the impacts of any changes were not material.

Table of Contents**8. Earnings per Share**

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(Dollars and shares in thousands, except earnings per share)				
Basic Earnings per Share:				
Income before extraordinary item available to common	\$ 101,223	\$ 188,910	\$ 262,467	\$ 399,608
Preferred dividend requirement	(13)	(13)	(39)	(39)
Income before extraordinary item available to common	101,210	188,897	262,428	399,569
Extraordinary item, net of taxes		42,827		42,827
Net income available to common used in basic earnings per share	\$ 101,210	\$ 231,724	\$ 262,428	\$ 442,396
Diluted Earnings per Share:				
Income before extraordinary item available to common	\$ 101,210	\$ 188,897	\$ 262,428	\$ 399,569
Minority income adjustment (1)	(314)	(479)	(817)	(2,424)
Preferred dividend adjustment (2)	12	12	37	37
Income before extraordinary item available to common	100,908	188,430	261,648	397,182
Extraordinary item, net of taxes		42,827		42,827
Net Income available to common used in diluted earnings per share	\$ 100,908	\$ 231,257	\$ 261,648	\$ 440,009
Weighted average number of shares used in basic earnings per share				
Common Shares	53,242	52,953	53,223	52,323
Special Common Shares	56,006	59,309	56,840	58,758
Series A Common Shares	6,452	6,443	6,447	6,445
Weighted average number of shares used in basic earnings per share	115,700	118,705	116,510	117,526
Effects of dilutive securities:				
Stock options (3)	323	1,011	404	1,413
Restricted stock units (4)	123	181	104	173
Preferred shares (5)	47	53	47	52
Weighted average number of shares used in diluted earnings per share	116,193	119,950	117,065	119,164
Basic Earnings per Share				

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Income before extraordinary item	\$	0.87	\$	1.59	\$	2.25	\$	3.40
Extraordinary item, net of taxes				0.36				0.36
	\$	0.87	\$	1.95	\$	2.25	\$	3.76

Diluted Earnings per Share

Income before extraordinary item	\$	0.87	\$	1.57	\$	2.24	\$	3.33
Extraordinary item, net of taxes				0.36				0.36
	\$	0.87	\$	1.93	\$	2.24	\$	3.69

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(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 related to preferred securities that were dilutive, and therefore converted for shares.

(3) Stock options exercisable into 336,000 Common Shares and 1,876,000 Special Common Shares for the three months ended September 30, 2008, and 863,000 Special Common Shares for the three months ended September 30, 2007, were not included in computing Diluted Earnings per Share because their effects were antidilutive. Stock options exercisable into 337,000 Common Shares and 1,566,000 Special Common Shares for the nine months ended September 30, 2008, and 112,000 Common Shares and 403,000 Special Common Shares for the nine months ended September 30, 2007, were not included in computing Diluted Earnings per Share because their effects were antidilutive.

(4) Restricted stock units issuable upon vesting into 57,000 Special Common Shares for the three months ended September 30, 2008 were not included in computing Diluted Earnings per Share because their effects were antidilutive. Restricted stock units issuable upon vesting into 20,000 and 31,000 Special Common Shares for the nine months ended September 30, 2008 and 2007 were not included in Diluted Earnings per Share because their effects were antidilutive. There were no antidilutive restricted stock units for the three-month period ended September 30, 2007.

(5) For the class of preferred shares that is redeemable for Common Shares, there were no antidilutive preferred shares for the three- or nine-month periods ended September 30, 2008 or September 30, 2007.

9. Licenses and Goodwill

Changes in TDS' licenses and goodwill are primarily the result of acquisitions (or step acquisition allocation of value related to U.S. Cellular's share buyback programs), divestitures and exchanges of licenses, wireless markets and telephone companies. See Note 3 Acquisitions, Divestitures and Exchanges for information regarding transactions which affected licenses and goodwill during the period.

	U.S. Cellular(1)	TDS Telecom (Dollars in thousands)	Total
<u>Licenses</u>			
Balance December 31, 2007	\$ 1,513,829	\$ 2,800	\$ 1,516,629
Acquisitions	312,397		312,397
U.S. Cellular Common Share repurchases (3)	2,500		2,500
Balance September 30, 2008	\$ 1,828,726	\$ 2,800	\$ 1,831,526
Balance December 31, 2006	\$ 1,517,607	\$ 2,800	\$ 1,520,407
Acquisitions	7,900		7,900

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Impairment		(2,136)			(2,136)
U.S. Cellular Common Share repurchases (3)		5,994			5,994
Balance September 30, 2007	\$	1,529,365	\$	2,800	\$ 1,532,165

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	U.S. Cellular(1)	TDS Telecom (Dollars in thousands)	Other(2)	Total
Goodwill				
Balance December 31, 2007	\$ 276,416	\$ 398,911	\$ 3,802	\$ 679,129
Acquisitions	2,602	11,438		14,040
U.S. Cellular Common Share repurchases(3)	3,485			3,485
Other		(784)		(784)
Balance September 30, 2008	\$ 282,503	\$ 409,565	\$ 3,802	\$ 695,870
Balance December 31, 2006	\$ 246,920	\$ 398,652	\$ 2,281	\$ 647,853
Acquisitions	5,864	259	1,521	7,644
U.S. Cellular Common Share repurchases(3)	18,131			18,131
Balance September 30, 2007	\$ 270,915	\$ 398,911	\$ 3,802	\$ 673,628

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

(2) Other consists of licenses and goodwill related to Suttle-Straus.

(3) This adjustment is the allocation of value related to U.S. Cellular's share buyback programs. See Note 15 - TDS Special Common and U.S. Cellular Common Share Repurchases for a discussion of U.S. Cellular's purchase of its Common Shares.

Licenses and goodwill must be reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. TDS performs the annual impairment review of licenses and goodwill during the second quarter of the year. Accordingly, the annual impairment reviews for licenses and goodwill for 2008 and 2007 were performed in the second quarter of those years. Such impairment reviews indicated that there was no impairment in 2008 and an impairment of licenses of \$2.1 million in 2007. The impairment in 2007 is included in Depreciation, amortization and accretion expense in the Consolidated Statements of Operations.

As stated above, TDS performs its annual impairment assessment of goodwill and licenses in the second quarter of the year. Given recent economic events including significant decreases in investment security values, the tightening of credit markets and other factors, TDS considered whether the decline in its market capitalization in the third quarter of 2008 required an updated impairment assessment of its goodwill and licenses at September 30, 2008. Given that the market capitalization of U.S. Cellular at September 30, 2008 was greater than its book value, and U.S. Cellular's operating results and key performance indicators for the three months ended September 30, 2008 provided no evidence of significant deterioration, TDS concluded that an updated impairment analysis was not required for U.S. Cellular's goodwill or licenses at September 30, 2008. Given the implied market capitalization of TDS Telecom at September 30, 2008, TDS performed an updated impairment assessment of TDS Telecom's goodwill at September 30, 2008. All of TDS Telecom's goodwill is recorded in its ILEC reporting unit. As a result of performing this impairment testing, TDS concluded that the fair value of the TDS Telecom ILEC reporting unit exceeded its carrying value at September 30, 2008, and therefore no impairment was recorded.

Table of Contents**10. 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 balance for the nine months ended September 30, 2008 and 2007 were as follows:

	U.S. Cellular(1)	TDS Telecom (Dollars in thousands)	Total
<u>Customer lists</u>			
Balance December 31, 2007	\$ 25,851	\$	\$ 25,851
Acquisitions	1,045	4,799	5,844
Amortization	(10,325)	(172)	(10,497)
U.S. Cellular Common Share repurchases(2)	6,538		6,538
Balance September 30, 2008	\$ 23,109	\$ 4,627	\$ 27,736
Balance December 31, 2006	\$ 26,196	\$	\$ 26,196
Acquisitions	1,560		1,560
Amortization	(10,633)		(10,633)
Impairments	(1,947)		(1,947)
U.S. Cellular Common Share repurchases(2)	11,763		11,763
Balance September 30, 2007	\$ 26,939	\$	\$ 26,939

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

(2) This adjustment is the allocation of value related to U.S. Cellular's share buyback programs. See Note 15 - TDS Special Common and U.S. Cellular Common Share Repurchases for a discussion of U.S. Cellular's purchase of its Common Shares.

TDS reviews its customer lists periodically throughout the year to ensure that they are being amortized over the proper period. No significant adjustments to the amortization periods used for customer lists were made in the nine months ended September 30, 2008.

During the third quarter 2007, it was determined that the carrying values of certain customer list balances exceeded their estimated fair values and an impairment loss of \$1.9 million was recorded. The loss was included in Depreciation, amortization and accretion in the Consolidated Statements of Operations. Fair values were determined based upon a present value analysis of expected future cash flows and customer churn rates.

Based on the Customer lists balance as of September 30, 2008 amortization expense for the remainder of 2008 and for the years 2009-2013 is expected to be \$3.1 million, \$9.3 million, \$7.1 million, \$4.1 million, \$1.4 million, \$0.6 million, respectively, and is expected to be an aggregate of \$2.1 million for the years 2014-2019.

Table of Contents**11. Marketable Equity Securities and Variable Prepaid Forward Contracts**

Information regarding TDS marketable equity securities and the reconciliation of unrealized gains on marketable equity securities to total accumulated other comprehensive income are summarized below:

	September 30, 2008	December 31, 2007
	(Dollars in thousands)	
Marketable Equity Securities - Current Assets		
Rural Cellular Corporation - 0 and 719,396 Common Shares, respectively	\$	\$ 31,718
Deutsche Telekom AG - 0 and 85,969,689 Ordinary Shares, respectively		1,886,175
Aggregate fair value included in Current Assets		1,917,893
Accounting cost basis		864,643
Gross unrealized holding gains (1)		1,053,250
Equity method unrealized gains	608	387
Income tax expense		(386,315)
Minority share of unrealized holding gains		(1,945)
Unrealized holding gains, net of tax and minority share	608	665,377
Derivative instruments, net of tax and minority share		(144,583)
Retirement plans, net of tax	(8,946)	(9,018)
Accumulated other comprehensive income	\$ (8,338)	\$ 511,776

(1) Upon the adoption of SFAS 159 on January 1, 2008, unrealized holding gains and losses related to the Deutsche Telekom 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.

Prior to August 7, 2008, TDS and its subsidiaries held 719,396 common shares of Rural Cellular Corporation (RCC). On August 7, 2008, RCC was acquired by Verizon Wireless, with shareholders of RCC receiving cash of \$45 per share in exchange for each RCC share owned. Accordingly, in August 2008, TDS received total cash proceeds of \$32.4 million, recognized a pre-tax gain of \$31.7 million and recorded a current tax liability of \$11.1 million related to the exchange. As a result of this transaction, TDS and its subsidiaries no longer had any interest in RCC as of September 30, 2008.

TDS entered into variable prepaid forward contracts (forward contracts) related to the Deutsche Telekom Ordinary Shares it held. The economic hedge risk management objective of the forward contracts was to hedge the value of the marketable equity securities from losses due to decreases in the market prices of the securities while retaining a share of gains from increases in the market prices of such securities. The downside risk was hedged at or above the accounting cost basis of the securities. The principal amount of the forward contracts was accounted for as a loan. The forward contracts contained embedded collars that were bifurcated and accounted for as derivatives in accordance with SFAS 133. As of December 31, 2007, such forward contracts were scheduled to mature during the period January 2008 to September 2008.

In the first half of 2008, the forward contracts related to 39,000,000 Deutsche Telekom Ordinary Shares were settled at their scheduled maturity dates, while the forward contracts related to 46,969,689 Deutsche Telekom Ordinary Shares were settled prior to their scheduled maturity dates. TDS settled these forward contracts through a combination of delivery of 73,462,167 Deutsche Telekom Ordinary Shares relating to the forward contracts and cash payments. TDS sold the 12,507,522 Deutsche Telekom Ordinary Shares remaining after settlement of the forward contracts

and realized cash proceeds of \$226.6 million from the sale. This amount was offset by \$17.4 million and \$47.4 million of cash payments paid to settle the collar (derivative liability) and debt portions of certain variable prepaid forward contracts, respectively, for which cash was delivered upon settlement. The settlement of the forward contracts and disposition of Deutsche Telekom Ordinary Shares resulted in a current tax liability of \$344.2 million; approximately 75% of this amount was paid as part of estimated tax payments as of September 30, 2008.

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As a result of TDS adopting SFAS 159 as of January 1, 2008, no gain or loss was recognized upon the settlement of forward contracts and disposition of Deutsche Telekom Ordinary Shares in the first half of 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.

As a result of these transactions, TDS does not own any shares of Deutsche Telekom and no longer holds any forward contracts related to such shares.

12. 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 September 30, 2008 and 2007, and recorded related income of \$15.3 million and \$17.9 million, respectively, for the three-month periods then ended and \$49.2 million and \$54.3 million, respectively, for the nine-month periods then ended. Such amounts are included in Equity in earnings of unconsolidated entities in the Consolidated Statements of Operations.

The following table summarizes the operating results of the LA Partnership as furnished to TDS by the managing partner:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Revenues	\$ 1,025,000	\$ 953,000	\$ 2,930,000	\$ 2,776,000
Operating expenses	728,000	642,000	2,028,000	1,815,000
Operating income	297,000	311,000	902,000	961,000
Other income	4,000	9,000	19,000	27,000
Net income	\$ 301,000	\$ 320,000	\$ 921,000	\$ 988,000

13. Notes Payable

TDS has a \$600 million revolving credit facility available for general corporate purposes. At September 30, 2008, there were no outstanding borrowings and \$3.4 million of outstanding letters of credit, leaving \$596.6 million available for use. Borrowings under the revolving credit facility bear interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on TDS' credit rating. TDS may select

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borrowing periods of either seven days or one, two, three or six months. At September 30, 2008, the one-month LIBOR was 3.93% and the contractual spread was 60 basis points. If TDS provides less than two days notice of intent to borrow, interest on borrowings is at the prime rate less 50 basis points (the prime rate was 5.00% at September 30, 2008). This credit facility expires in December 2009.

TDS also has \$25 million of direct bank lines of credit at September 30, 2008, all of which were unused. The terms of the direct lines of credit bear negotiated interest rates up to the prime rate.

U.S. Cellular has a \$700 million revolving credit facility available for general corporate purposes. At September 30, 2008, there were no outstanding borrowings and \$0.3 million of outstanding letters of credit, leaving \$699.7 million available for use. Borrowings under the revolving credit facility bear interest at the LIBOR plus a contractual spread based on U.S. Cellular's credit rating. U.S. Cellular may select borrowing periods of either seven days or one, two, three or six months. At September 30, 2008, the one-month LIBOR was 3.93% and the contractual spread was 60 basis points. If U.S. Cellular provides less than two days notice of intent to borrow, interest on borrowings is the prime rate less 50 basis points (the prime rate was 5.00% at September 30, 2008). This credit facility expires in December 2009.

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TDS and U.S. Cellular's interest cost on their revolving credit facilities would increase if their current credit ratings from either Standard & Poor's Rating Services or Moody's Investors Service were lowered and would decrease if the ratings from both agencies were raised. The credit facilities would not cease to be available or accelerate solely as a result of a downgrade in TDS or U.S. Cellular's credit rating. However, a downgrade in TDS or U.S. Cellular's credit rating could adversely affect their ability to renew the existing credit facilities or obtain access to new credit facilities in the future.

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

The continued availability of the revolving credit facilities requires TDS and U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing. TDS and U.S. Cellular believe they were in compliance as of September 30, 2008 with all covenants and other requirements set forth in the revolving credit facilities and lines of credit.

14. Commitments and Contingencies

Indemnifications

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

Legal Proceedings

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.

Minority Interest in Subsidiaries

Under SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, certain minority interests in consolidated entities with finite lives may meet the standard's definition of a mandatorily redeemable financial instrument and thus require reclassification as liabilities and remeasurement at the estimated amount of cash that would be due and payable to settle such minority interests under the applicable entity's organization agreement assuming an orderly liquidation of the finite-lived entity, net of estimated liquidation costs (the settlement value). TDS' consolidated financial statements include certain minority interests that meet the standard's definition of mandatorily redeemable financial instruments. These mandatorily redeemable minority interests represent interests held by third parties in consolidated partnerships and limited liability companies (LLCs), where the terms of the underlying partnership or LLC agreement provide for a defined termination date at which time the assets of the subsidiary are to be sold, the liabilities are to be extinguished and the remaining net proceeds are to be distributed to the minority interest holders and TDS in accordance with the respective partnership and LLC agreements. The termination dates of TDS' mandatorily redeemable minority interests range from 2042 to 2107.

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The settlement value of TDS' mandatorily redeemable minority interests is estimated to be \$134.6 million at September 30, 2008. This represents the estimated amount of cash that would be due and payable to settle these minority interests assuming an orderly liquidation of the finite-lived consolidated partnerships and LLCs on September 30, 2008, net of estimated liquidation costs. This amount is being disclosed pursuant to the requirements of FSP No. FAS 150-3, *Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under SFAS 150*. TDS has no current plans or intentions to liquidate any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the minority interests in finite-lived consolidated partnerships and LLCs at September 30, 2008 is \$44.6 million, and is included in Minority interest in the Consolidated Balance Sheet. The excess of the aggregate settlement value over the aggregate carrying value of the mandatorily redeemable minority interests of \$90.0 million is due primarily to the unrecognized appreciation of the minority interest holders' share of the underlying net assets in the consolidated partnerships and LLCs. Neither the minority interest holders' share, nor TDS' share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements. The estimate of settlement value was based on certain factors and assumptions which are subjective in nature. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount.

15. 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 nine months ended September 30, 2008, TDS repurchased 2,863,566 Special Common Shares for \$115.0 million, or an average of \$40.16 per share pursuant to this authorization. During the nine months ended September 30, 2007, TDS repurchased 1,483,193 Special Common Shares for \$89.1 million, or \$60.06 per share. As of September 30, 2008, TDS has purchased a total of \$241.7 million of Special Common Shares under this authorization, and therefore could purchase up to \$8.3 million in future periods. TDS substantially completed the repurchase of TDS Special Common Shares under this authorization in October 2008.

On November 3, 2008, the TDS Board of Directors authorized the repurchase of up to \$250 million in aggregate purchase price of TDS Common and/or TDS Special Common Shares from time to time through open market purchases, block transactions, private purchases or otherwise. This authorization will expire on November 3, 2011.

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 (the Limited Authorization). This authorization does not have an expiration date. During the nine months ended September 30, 2008, U.S. Cellular repurchased 450,000 Common Shares for \$27.7 million, or an average of \$61.56 per share, pursuant to this authorization.

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In addition to U.S. Cellular's Limited Authorization discussed above, on March 6, 2007, the Board of Directors of U.S. Cellular authorized the repurchase of up to 500,000 Common Shares of U.S. Cellular from time to time through open market purchases, block transactions, private transactions or other methods (the "Additional Authorization"). During the nine months ended September 30, 2007, U.S. Cellular purchased 838,000 Common Shares from an investment banking firm in private accelerated share repurchase ("ASR") transactions dated April 4, 2007 and July 10, 2007. These purchases consisted of 338,000 shares under the Limited Authorization and 500,000 shares under the Additional Authorization. Activity related to these purchases is detailed in the table below.

	April 4, 2007	July 10, 2007	Total
	(Dollars in thousands, except per share amounts)		
Number of shares purchased	670,000	168,000	838,000
ASR Transactions			
Initial purchase price paid to investment banking firm	\$ 49,057	\$ 16,145	\$ 65,202
Weighted average price per share	\$ 73.22	\$ 96.10	\$ 77.81
ASR Settlements			
Additional amount paid to (refunded by) investment banking firm (1)	\$ 6,485	\$ (2,080)	\$ 4,405
Final total cost of shares, including discount and commission	\$ 55,542	\$ 14,065	\$ 69,607
Final weighted average price per share	\$ 82.90	\$ 83.72	\$ 83.06

(1) The cash settlements with the investment banking firm for the April 4, 2007 and July 10, 2007 ASRs occurred in December 2007 and January 2008, respectively.

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 9 - Licenses and Goodwill, and Note 10 - 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 nine months ended September 30, 2008 and 2007.

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

	Nine Months Ended September 30,	
	2008	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	654	150,512
Income tax expense	(251)	(56,091)
	403	94,421
Unrealized gains of equity method companies	221	35
Minority share of unrealized gains	(17)	(2,536)
Net increase in unrealized gains	607	91,920
Recognized gain on disposition of marketable equity securities(2)	(31,725)	(500,126)
Income tax expense	11,647	182,948
	(20,078)	(317,178)
Minority share of income	1,962	15,586
Net recognized gain on disposition of marketable equity securities	(18,116)	(301,592)
Net change in marketable equity securities	(17,509)	(209,672)
Initial application of FIN 48(3)		30,306
Balance, end of period	\$ 608	\$ 570,612
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):		
Recognized gain on settlement (2)		113,346
Income tax expense		(41,463)
		71,883
Minority share of income		549
Net change in derivative instruments		72,432
Initial application of FIN 48(3)		(9,583)
Balance, end of period	\$	\$ (152,273)
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	(622)	(622)
Amortization of unrecognized net loss	726	1,021
	104	399
Income tax expense	(32)	(154)
Net change in retirement plans	72	245

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Balance, end of period	\$	(8,946)	\$	(12,498)
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		(17,509)		(209,672)
Net change in derivative instruments				72,432
Net change in retirement plans		72		245
Net change included in comprehensive income		(17,437)		(136,995)
Initial application of FIN 48(3)				20,723
Balance, end of period	\$	(8,338)	\$	405,841

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

(2) See Note 11 - Marketable Equity Securities and Variable Prepaid Forward Contracts for additional details on the disposition of marketable equity securities and the settlement of variable prepaid forward contracts.

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

	Nine Months Ended September 30,	
	2008	2007
(Dollars in thousands)		
Comprehensive Income		
Net income	\$ 262,467	\$ 442,435
Net change included in comprehensive income	(17,437)	(136,995)
	\$ 245,030	\$ 305,440

17. Business Segment Information

Financial data for TDS' business segments for the three- and nine-month periods ended, or as of September 30, 2008 and 2007, is as follows. TDS Telecom's incumbent local exchange carriers are designated as ILEC in the table and its competitive local exchange carrier is designated as CLEC.

Three Months Ended or as of September 30, 2008

	U.S. Cellular	TDS Telecom		Non- Reportable Segment(1)	Other Reconciling Items(2)	Total
		ILEC	CLEC			
(Dollars in thousands)						
Operating revenues	\$ 1,091,875	\$ 152,989	\$ 54,690	\$ 13,290	\$ (8,246)	\$ 1,304,598
Cost of services and products	378,057	47,337	27,620	10,104	(1,816)	461,302
Selling, general and administrative expense	441,543	40,311	17,363	2,104	(5,239)	496,082
Operating income before depreciation, amortization and accretion, (gain) loss on asset disposals(3)	272,275	65,341	9,707	1,082	(1,191)	347,214
Depreciation, amortization and accretion expense	145,434	33,469	5,567	731	2,774	187,975

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(Gain) loss on asset disposals	6,884	78	73		65	7,100
Operating income (loss)	119,957	31,794	4,067	351	(4,030)	152,139
Significant non-operating items:						
Equity in earnings of unconsolidated entities	22,319	12			235	22,566
Gain (loss) on investments and financial instruments	16,628	15,369				31,997
Investments in unconsolidated entities	175,424	6,515			45,486	227,425
Total assets	5,913,969	1,307,459	130,781	26,861	779,276	8,158,346
Capital expenditures	146,137	33,288	4,538	137	1,867	185,967

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	U.S. Cellular	TDS Telecom ILEC	CLEC	Non- Reportable Segment (1)	Other Reconciling Items(2)	Total
	(Dollars in thousands)					
Operating revenues	\$ 1,015,834	\$ 157,240	\$ 58,972	\$ 11,280	\$ (6,441)	\$ 1,236,885
Cost of services and products	346,907	49,069	29,253	9,783	(1,616)	433,396
Selling, general and administrative expense	418,212	43,703	19,679	176	(4,465)	477,305
Operating income before depreciation, amortization and accretion, (gain) loss on asset disposals(3)	250,715	64,468	10,040	1,321	(360)	326,184
Depreciation, amortization and accretion expense	148,014	32,642	5,832	703	2,742	189,933
(Gain) loss on asset disposals	1,762					1,762
Operating income (loss)	100,939	31,826	4,208	618	(3,102)	134,489
Significant non-operating items:						
Equity in earnings of unconsolidated entities	23,782				41	23,823
Gain (loss) on investments and financial instruments					194,036	194,036
Marketable equity securities	16,133				1,785,953	1,802,086
Investments in unconsolidated entities	176,557	3,673			45,038	225,268
Total assets	5,589,454	1,717,315	145,377	29,156	2,406,606	9,887,908
Capital expenditures	130,609	23,457	3,426	233	735	158,460

Nine Months Ended or as of September 30, 2008

	U.S. Cellular	TDS Telecom ILEC	CLEC	Non- Reportable Segment(1)	Other Reconciling Items(2)	Total
	(Dollars in thousands)					
Operating revenues	\$ 3,190,323	\$ 458,003	\$ 166,707	\$ 37,903	\$ (24,886)	\$ 3,828,050
Cost of services and products	1,111,956	139,044	82,781	28,861	(6,112)	1,356,530
Selling, general and administrative expense	1,271,544	124,208	51,846	6,371	(17,289)	1,436,680
Operating income before depreciation, amortization and accretion, (gain) loss on asset disposals(3)	806,823	194,751	32,080	2,671	(1,485)	1,034,840
Depreciation, amortization and accretion expense	433,222	100,595	17,020	2,186	9,136	562,159
(Gain) loss on asset disposals	16,776	32	317		65	17,190
Operating income (loss)	356,825	94,124	14,743	485	(10,686)	455,491
Significant non-operating items:						

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Equity in earnings of unconsolidated entities	66,361	10			574	66,945
Gain (loss) on investments and financial instruments	16,628	17,758			(2,791)	31,595
Investments in unconsolidated entities	175,424	6,515			45,486	227,425
Total assets	5,913,969	1,307,459	130,781	26,861	779,276	8,158,346
Capital expenditures	395,637	70,735	12,684	1,168	4,804	485,028

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	U.S. Cellular	TDS Telecom ILEC	CLEC	Non- Reportable Segment (1)	Other Reconciling Items(2)	Total
	(Dollars in thousands)					
Operating revenues	\$ 2,922,154	\$ 473,935	\$ 179,089	\$ 32,543	\$ (21,445)	\$ 3,586,276
Cost of services and products	989,585	148,883	88,402	26,244	(5,178)	1,247,936
Selling, general and administrative expense	1,151,746	129,622	62,687	3,474	(13,963)	1,333,566
Operating income before depreciation, amortization and accretion, (gain) loss on asset disposals(3)	780,823	195,430	28,000	2,825	(2,304)	1,004,774
Depreciation, amortization and accretion expense	439,990	98,912	17,911	1,991	6,830	565,634
(Gain) loss on asset disposals	7,899					7,899
Operating income (loss)	332,934	96,518	10,089	834	(9,134)	431,241
Significant non-operating items:						
Equity in earnings of unconsolidated entities	69,860				1,534	71,394
Gain (loss) on investments and financial instruments	126,298				103,409	229,707
Marketable equity securities	16,133				1,785,953	1,802,086
Investments in unconsolidated entities	176,557	3,673			45,038	225,268
Total assets	5,589,454	1,717,315	145,377	29,156	2,406,606	9,887,908
Capital expenditures	377,399	70,375	10,766	1,317	3,162	463,019

(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 TDS' internal reporting system utilized by management to assess and evaluate the performance of its business. Operating cash flow is also considered a significant performance measure. It is used by management as a measurement of its success in obtaining, retaining and servicing customers by reflecting its ability to generate subscriber revenue while providing a high level of customer service in a cost effective manner. The components of operating cash flow include the key revenue and expense items for which operating managers are responsible and upon which TDS evaluates its performance.

Other companies 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.

18. Supplemental Cash Flow Disclosures

TDS withheld 11,028 and 9,466 Common Shares with an aggregate value of \$0.6 million and \$0.6 million, and withheld 17,314 and 23,338 Special Common Shares with an aggregate value of \$0.8 million and \$1.4 million during the nine months ended September 30, 2008 and 2007, respectively, from employees who exercised stock options or who received vested restricted stock awards. Such shares were withheld to cover the exercise price of stock options, if applicable, and required tax withholdings.

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U.S. Cellular withheld 287,609 and 544,000 Common Shares with an aggregate value of \$16.9 million and \$43.5 million during the nine months ended September 30, 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.

19. Subsequent Events

On October 24, 2008, TDS Telecom entered into an agreement to acquire State Long Distance Company, a telephone company in Wisconsin serving 11,600 equivalent access lines, for \$27 million in cash, subject to working capital adjustments. The transaction is expected to close in the fourth quarter of 2008.

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

Telephone and Data Systems, Inc. (TDS) is a diversified telecommunications company providing high-quality telecommunications services in 36 states to approximately 6.2 million wireless customers and 1.2 million wireline equivalent access lines at September 30, 2008. TDS conducts substantially all of its wireless operations through its 81%-owned subsidiary, United States Cellular Corporation (U.S. Cellular®), and provides wireline services through its incumbent local exchange carrier (ILEC) and competitive local exchange carrier (CLEC) operations under its wholly owned subsidiary, TDS Telecommunications Corporation (TDS Telecom®). TDS conducts printing and distribution services through its 80%-owned subsidiary, Suttle-Straus, Inc. which represents a small portion of TDS' operations.

The following discussion and analysis should be read in conjunction with TDS' interim consolidated financial statements and footnotes included herein and the description of TDS' business included in Item 1 of the TDS Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 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 September 30, 2008, U.S. Cellular owned or had rights to acquire interests in 244 wireless markets and operated 6,716 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 believes that operating in contiguous market areas will continue to provide it with certain economies in its capital and operating costs.

Financial and operating highlights in the first nine months of 2008 included the following:

- Total customers increased 2% year-over-year to 6.2 million at September 30, 2008; net retail customer additions were 116,000;
- The retail postpay churn rate was 1.4% per month. Retail postpay customers comprised approximately 87% of U.S. Cellular's customer base as of September 30, 2008;

- Average monthly service revenue per customer increased 5% year-over-year to \$53.40;
- Additions to property, plant and equipment totaled \$395.6 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, purchase equipment to expand Evolution Data Optimized (EVDO) services to additional markets, outfit new and remodel existing retail stores and continue the development and enhancement of U.S. Cellular's office systems. Total cell sites in service increased 7% year-over-year to 6,716; and
- 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.

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Service revenues increased \$242.0 million, or 9%, to \$2,963.4 million in 2008 from \$2,721.3 million in 2007. Customer growth and improvements in average monthly revenue per unit have driven increased revenues. U.S. Cellular continues to experience increases in average monthly revenue per unit driven primarily by growth in revenues from data products and services.

Operating income increased \$23.9 million, or 7%, to \$356.8 million in 2008 from \$332.9 million in 2007.

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

- uncertainty related to current economic conditions and their impact on demand for U.S. Cellular's products and services;
- increasing penetration in the wireless industry;
- costs of customer acquisition and retention, such as equipment subsidies and advertising;
- industry consolidation and the resultant effects on roaming revenues, service and equipment pricing and other effects of competition;
- providing service in recently launched areas or potential new market areas;
- potential increases 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, and its customer support and administrative systems;
- increasing costs of regulatory compliance; and

- uncertainty in future eligible telecommunication carrier (ETC) funding.

See Results of Operations Wireless in the sections entitled Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007 and Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007 .

2008 Wireless Estimates

U.S. Cellular expects that the industry, competitive, regulatory, and economic factors discussed above may impact its results of operations for the next several quarters.

U.S. Cellular's estimates of full year 2008 results are shown below. Such estimates represent U.S. Cellular's views as of the filing date of U.S. Cellular's Form 10-Q for the nine months ended September 30, 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		2007
	Estimated Results		Actual Results
Net retail customer additions	125,000-160,000		333,000
Service revenues	\$3,925-\$3,975 million	\$	3,679.2 million
Operating income	\$385-\$435 million	\$	396.2 million
Depreciation, amortization and accretion expenses(1)	Approx. \$615 million	\$	637.1 million
Capital expenditures	\$525-\$575 million	\$	565.5 million

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

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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 both ILEC and CLEC operations. TDS Telecom's strategy is to be the preferred provider of telecommunications services including voice, broadband, and video services in its chosen markets. This strategy encompasses many components, including:

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

Both ILECs and CLECs are faced with significant challenges, including the industrywide 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 September 30, 2008 decreased 3% compared to September 30, 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. Each digital subscriber line (DSL) is treated as an equivalent access line in addition to a voice line that may operate on the same copper loop.

Operating revenues decreased \$29.1 million, or 4% to \$619.5 million during the nine months ended September 30, 2008 from \$648.6 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 increased to \$108.9 million during the nine months ended September 30, 2008 compared to \$106.6 million in 2007, as decreased revenues were offset by lower costs. The lower costs in 2008 were primarily due to reduced contributions to certain ILEC national network access pools, various process improvements implemented by TDS Telecom and lower commission and advertising expenses related to the CLEC operations.

See Results of Operations Wireline in the sections entitled Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007 and Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007.

2008 Wireline Estimates

TDS Telecom's estimates of full-year 2008 results are shown below. Such forward-looking statements should not be assumed to be accurate as of any future date. Such estimates represent TDS Telecom's view as of the filing date of TDS Form 10-Q for the nine months ended September 30, 2008. TDS undertakes no duty to update such information whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from these estimated results.

	2008		2007
	Estimated Results		Actual Results
ILEC and CLEC Operations:			
Operating revenues	\$810-\$830 million	\$	860.2 million
Operating income	\$120-\$140 million	\$	141.2 million
Depreciation, amortization and accretion expenses	Approx. \$160 million	\$	157.5 million
Capital expenditures	\$130-\$150 million	\$	128.2 million

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Cash Flows and Investments - TDS and its subsidiaries had cash and cash equivalents totaling \$1,006.1 million, borrowing capacity under their revolving credit facilities of \$1,296.3 million, and additional bank lines of credit of \$25 million as of September 30, 2008. Also, during the nine months ended September 30, 2008, TDS and its subsidiaries generated \$631.8 million of cash flows from operating activities. Management believes that cash on hand, expected future cash flows from operating activities and sources of external financing provide financial flexibility and are sufficient to permit TDS and its subsidiaries to finance their contractual obligations and anticipated capital and operating expenditures for the foreseeable future.

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

Recent Developments

FCC Regulatory Developments

As disclosed in TDS Form 10-K, before the FCC for comment are proposals made by the Federal-State Joint Board and by the FCC itself to change the universal service fund (USF) high cost program in various ways. On April 29, 2008, the FCC adopted an interim cap on the USF high cost funding that goes to competitive ETCs, limiting such funding for the state to the levels 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. While the cap is in effect, which will be of indefinite duration, wireless ETCs such as U.S. Cellular will receive less support than they otherwise would have been eligible to receive before the cap was in effect, because overall support will not increase as a carrier adds customers or as new competitive carriers are granted ETC status in the state. The FCC order imposing the cap was published on July 1, 2008 and became effective on August 1, 2008.

The FCC also is considering other significant changes in the USF, as discussed in TDS Form 10-K, under the headings of U.S. Cellular Operations, Regulation, Pending Proceedings Universal Service and TDS Telecom Operations Incumbent Local Exchange Carrier Regulation. Although there have been numerous recent reports indicating the FCC is considering these and other potential changes in USF funding as well as in wireless and wireline intercarrier compensation, TDS is not able to predict what, if any, changes ultimately will be adopted by the FCC. Such changes could have a material adverse impact on TDS financial position, results of operations, and cash flows.

Also, on July 28, 2008, at least 24 companies, including TDS, were sent a letter relating to USF from a congressional committee. The letter states that the committee is investigating the USF High Cost Program, focusing on how the recipients of support funds use the funds they receive, and requested information regarding these support funds. In addition, in October 2008, TDS Telecom received a subpoena from the FCC's Office of Inspector General requesting information regarding depreciation rates and methodologies relating to USF, similar to subpoenas received by other companies. TDS and U.S. Cellular have provided or will provide the information requested and intends to fully cooperate with regard to these requests. TDS and U.S. Cellular cannot predict any action that may be taken as a result of these requests.

Change in Listing from American Stock Exchange to New York Stock Exchange

In 2008, the New York Stock Exchange (NYSE) agreed to purchase the American Stock Exchange (AMEX). As a result, TDS and U.S. Cellular determined to change their listings from the AMEX to the NYSE. Effective September 15, 2008, TDS voluntarily transferred the listing of its Common Shares and Special Common Shares and U.S. Cellular voluntarily transferred the listing of its Common Shares from the AMEX to the NYSE. TDS Common Shares trade under the ticker symbol TDS and the Special Common Shares trade under the ticker symbol TDS on the NYSE. U.S. Cellular Common Shares trade on the NYSE under the ticker symbol USM .

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Licenses and Goodwill Impairment Assessment

TDS performs its annual impairment assessment of goodwill and licenses in the second quarter of the year. Given recent economic events including significant decreases in investment security values, the tightening of credit markets and other factors, TDS considered whether the decline in its market capitalization in the third quarter of 2008 required an updated impairment assessment of its goodwill and licenses at September 30, 2008. Given that the market capitalization of U.S. Cellular at September 30, 2008 was greater than its book value, and U.S. Cellular's operating results and key performance indicators for the three months ended September 30, 2008 provided no evidence of significant deterioration, TDS concluded that an updated impairment analysis was not required for U.S. Cellular's goodwill or licenses at September 30, 2008. Given the implied market capitalization of TDS Telecom at September 30, 2008, TDS performed an updated impairment assessment of TDS Telecom's goodwill at September 30, 2008. All of TDS Telecom's goodwill is recorded in its ILEC reporting unit. As a result of performing this impairment testing, TDS concluded that the fair value of the TDS Telecom ILEC reporting unit exceeded its carrying value at September 30, 2008, and therefore no impairment was recorded. TDS will continue to monitor economic events and market conditions and will perform such impairment testing as may be required in the fourth quarter of 2008.

Table of Contents**Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007****RESULTS OF OPERATIONS CONSOLIDATED**

Nine Months Ended September 30,	2008	2007	Increase/ (Decrease)	Percentage Change
	(Dollars in thousands, except per share amounts)			
Operating revenues				
U.S. Cellular	\$ 3,190,323	\$ 2,922,154	\$ 268,169	9.2%
TDS Telecom	619,492	648,555	(29,063)	(4.5)%
All other(1)	18,235	15,567	2,668	17.1%
Total operating revenues	3,828,050	3,586,276	241,774	6.7%
Operating expenses				
U.S. Cellular	2,833,498	2,589,220	244,278	9.4%
TDS Telecom	510,625	541,948	(31,323)	(5.8)%
All other(1)	28,436	23,867	4,569	19.1%
Total operating expenses	3,372,559	3,155,035	217,524	6.9%
Operating income (loss)				
U.S. Cellular	356,825	332,934	23,891	7.2%
TDS Telecom	108,867	106,607	2,260	2.1%
All other(1)	(10,201)	(8,300)	(1,901)	(22.9)%
Total operating income (loss)	455,491	431,241	24,250	5.6%
Other income and (expenses)				
Equity in earnings of unconsolidated entities	66,945	71,394	(4,449)	(6.2)%
Interest and dividend income	35,818	182,651	(146,833)	(80.4)%
Interest expense	(108,634)	(162,776)	54,142	33.3%
Gain on investments and financial instruments	31,595	229,707	(198,112)	(86.2)%
Other, net	2,086	(4,957)	7,043	N/M
Total investment and other income	27,810	316,019	(288,209)	(91.2)%
Income before income taxes, minority interest, and extraordinary item				
	483,301	747,260	(263,959)	(35.3)%
Income tax expense	163,536	283,845	(120,309)	(42.4)%
Income before minority interest and extraordinary item				
	319,765	463,415	(143,650)	(31.0)%
Minority share of income, net of tax	(57,298)	(63,807)	6,509	10.2%
Income before extraordinary item				
	262,467	399,608	(137,141)	(34.3)%
Extraordinary item, net of tax		42,827	(42,827)	N/M
Net Income				
	262,467	442,435	(179,968)	(40.7)%
Preferred dividend requirement	(39)	(39)		0.0%
Net Income Available to Common	\$ 262,428	\$ 442,396	\$ (179,968)	(40.7)%
Basic Earnings Per Share	\$ 2.25	\$ 3.76	\$ (1.51)	(40.2)%
Diluted Earnings Per Share	\$ 2.24	\$ 3.69	\$ (1.45)	(39.3)%

N/M = Not meaningful

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

Operating Revenues

U.S. Cellular revenue growth reflects average wireless customer growth of 3% and growth in average monthly service revenue per wireless customer of 5% in 2008. The decline in TDS Telecom revenue primarily reflects the decline in physical access lines and network usage.

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Operating Expenses

The increase primarily reflects costs associated with acquiring customers and serving and retaining its expanding customer base at U.S. Cellular. The reduction in TDS Telecom expenses were primarily due to reduced contributions to network access pools, process improvements and lower commission and advertising expenses.

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents TDS' share of net income from markets in which it has an interest and follows the equity method of accounting. TDS follows the equity method of accounting for interests in which its ownership interest is less than or equal to 50% but equals or exceeds 20% for corporations and 3% for partnerships and limited liability companies.

TDS' investment in the Los Angeles SMSA Limited Partnership (LA Partnership) contributed \$49.2 million and \$54.3 million to Equity in earnings from unconsolidated entities in 2008 and 2007, respectively.

Interest and dividend income

Interest income decreased \$27.9 million primarily due to a lower interest rate earned on cash balances in 2008 compared to 2007. The weighted average return on cash investments declined from 4.52% in 2007 to 1.48% in 2008 due to both a decline in short-term interest rates and a change in the composition of TDS' cash investments. TDS invested substantially all of its cash balances in prime money market funds through August 2007 and in money market funds that invest exclusively in short-term U.S. Treasury securities thereafter. Average investment balances decreased from \$1,197.9 million in 2007 to \$1,140.5 million in 2008.

Dividend income decreased \$118.9 million in 2008 from 2007 primarily due to a \$117.6 million decrease in dividends from Deutsche Telekom Ordinary Shares. This was due to the disposal of a substantial majority of these shares upon the settlement or early settlement of variable prepaid forward contracts related to such shares prior to the record date for the 2008 dividend in May 2008.

Interest expense

The decrease in interest expense in 2008 was primarily a result of a \$52.3 million decrease in interest incurred on variable prepaid forward contracts due to the settlement of variable prepaid forward contracts with an aggregate principal amount of \$1,754.1 million in 2007 and 2008.

Gain (loss) on investments and financial instruments

In 2008, the Gain (loss) on investments and financial instruments of \$31.6 million primarily reflects a \$31.7 million gain realized upon the disposition of RCC Common Shares.

In 2007, this amount includes gains and losses on the disposition of investments in: a portion of Deutsche Telekom Ordinary Shares, a portion of Vodafone American Depositary Receipts (ADRs) and all VeriSign Common Shares, and the settlement of the collar portions of the variable prepaid forward contracts related to such investments. This amount also includes gains and losses from the changes in fair value of the collar portions of the variable prepaid forward contracts related to these investments.

See Note 5 - Fair Value Measurements in the Notes to Consolidated Financial Statements for more information on gains and losses on investments and financial instruments.

Other, net

Borrowing costs on the variable prepaid forward contracts decreased \$4.2 million in 2008 compared to the same period in 2007 due to the settlements of variable prepaid forward contracts in 2008 and 2007.

Table of Contents**Income tax expense**

See Note 6 - Income Taxes in the Notes to Consolidated Financial Statements for a discussion of the change in income taxes from 2007 to 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.

	Nine Months Ended September 30,	
	2008	2007
	(Dollars in thousands)	
Minority Share of Income		
U.S. Cellular		
Minority Public Shareholders	\$ (44,414)	\$ (55,001)
Minority Shareholders or Partners	(12,816)	(8,731)
	(57,230)	(63,732)
Other	(68)	(75)
	\$ (57,298)	\$ (63,807)

Extraordinary Item

Extraordinary item was attributable to TDS Telecom's discontinuance of the application of Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, in the third quarter of 2007. See Note 7 - Extraordinary Item in the Notes to Consolidated Financial Statements for more information.

Table of Contents**RESULTS OF OPERATIONS WIRELESS**

TDS provides wireless telephone service through U.S. Cellular, an 81%-owned subsidiary. U.S. Cellular owns, manages and invests in wireless markets throughout the United States.

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

As of September 30,(1)	2008	2007
Total market population of consolidated operating markets(2)	45,493,000	44,955,000
Customers(3)(8)	6,176,000	6,058,000
Market penetration(2)	13.6%	13.5%
Total full-time equivalent employees	8,414	7,634
Cell sites in service	6,716	6,255

For the Nine Months Ended September 30,(4)	2008	2007
Net customer additions(5)(8)	72,000	237,000
Net retail customer additions(5)	116,000	269,000
Average monthly service revenue per customer(6)(8)	\$ 53.40	\$ 50.67
Retail postpay churn rate per month(7)	1.4%	1.4%
Total postpay churn rate per month(7)	1.7%	1.7%

(1) Amounts include results for U.S. Cellular's consolidated operating markets as of September 30; 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 82,875,000 and 7.5%, and 81,841,000 and 7.4%, as of September 30, 2008 and 2007, respectively.

As a result of exchange transactions with AT&T that closed in August 2003, U.S. Cellular obtained rights to acquire additional licenses, some of which licenses have been acquired and are reflected in the total market population of consolidated markets as of September 30, 2008. During the first nine months of 2008, U.S. Cellular exercised its rights to acquire all but one of the remaining licenses pursuant to this exchange agreement. License rights that were exercised but for which the licenses were not yet acquired as of September 30, 2008 will increase total market population of consolidated markets by 1,537,000 to 84,412,000. The exercise of these rights did not require U.S. Cellular to provide any

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consideration to AT&T beyond that already provided in conjunction with the August 2003 exchange transaction and, thus, did not cause a change in U.S. Cellular's Licenses balance in 2008. U.S. Cellular continues to have a right under the August 2003 exchange agreement to acquire a majority interest in one additional license; that right does not have a stated expiration date.

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

	2008	September 30, 2007
Customers on postpay service plans in which the end user is a customer of U.S. Cellular (postpay customers)	5,379,000	5,199,000
End user customers acquired through U.S. Cellular's agreement with a third party (reseller customers)*	502,000	558,000
Total postpay customers	5,881,000	5,757,000
Customers on prepaid service plans in which the end user is a customer of U.S. Cellular (prepaid customers)	295,000	301,000
Total customers	6,176,000	6,058,000

* 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.

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(4) Amounts include results for U.S. Cellular's consolidated operating markets for the period January 1 through September 30; 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:

	Nine Months Ended September 30,	
	2008	2007
Service revenues per Consolidated Statements of Operations (000s)	\$ 2,963,374	\$ 2,721,341
Divided by average customers during period (000s)*	6,166	5,968
Divided by number of months in each period	9	9
Average monthly service revenue per customer	\$ 53.40	\$ 50.67

* 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.

(8) The amounts presented as of or for the nine months ended September 30, 2007 were adjusted slightly from amounts previously reported as a result of a review of U.S. Cellular's customer reporting procedures. The amounts previously reported as Customers, Net customer additions, and Average monthly service revenue per customer were 6,067,000, 246,000 and \$50.66, respectively.

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Nine Months Ended September 30,	2008	2007	Increase/ (Decrease)	Percentage
				Change
(Dollars in thousands)				
Retail service	\$ 2,534,944	\$ 2,357,998	\$ 176,946	7.5%
Inbound roaming	186,441	150,195	36,246	24.1%
Long-distance and other	241,989	213,148	28,841	13.5%
Service revenues	2,963,374	2,721,341	242,033	8.9%
Equipment sales	226,949	200,813	26,136	13.0%
Total Operating Revenues	3,190,323	2,922,154	268,169	9.2%
System operations (excluding Depreciation, amortization and accretion reported below)	585,141	529,172	55,969	10.6%
Cost of equipment sold	526,815	460,413	66,402	14.4%
Selling, general and administrative	1,271,544	1,151,746	119,798	10.4%
Depreciation, amortization and accretion	433,222	439,990	(6,768)	(1.5)%
Loss on asset disposals, net	16,776	7,899	8,877	N/M
Total Operating Expenses	2,833,498	2,589,220	244,278	9.4%
Total Operating Income	\$ 356,825	\$ 332,934	\$ 23,891	7.2%

N/M = Not meaningful

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 as an ETC.

The increase in service revenues was due to the growth in the average customer base, which increased 3% to 6.2 million in 2008 from 6.0 million in 2007, and higher average monthly service revenue per customer; average monthly service revenue per customer averaged \$53.40 in 2008 and \$50.67 in 2007.

Retail service revenues

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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 service revenue per customer.

The increase in the average number of customers 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 service. 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. The rate of growth in U.S. Cellular's total customer base has slowed from 2007 to 2008 as U.S. Cellular's total customers increased 6% from September 30, 2006 to September 30, 2007, and 2% from September 30, 2007 to September 30, 2008. During the third quarter of 2008, U.S. Cellular's total retail customers decreased by 3,000 and its total reseller customers decreased by 15,000. See [Overview - 2008 Estimates](#) for U.S. Cellular's estimate of net retail customer additions for 2008.

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Average monthly retail service revenue per customer increased 4% to \$45.68 in 2008 from \$43.90 in 2007. The increase in average monthly retail service revenue per customer was driven primarily by growth in revenues from data products and services.

Monthly local retail voice minutes of use per customer averaged 700 in 2008 and 671 in 2007. The increase in 2008 was driven primarily 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 inbound calling, which U.S. Cellular had made a differentiating factor in its current calling plans, as well 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 \$369.6 million in 2008 and \$260.1 million in 2007, and representing 12% of total service revenues in 2008 compared to 10% of total service revenues in 2007. Such growth, which positively impacted average monthly retail service revenue per customer, reflected customers' continued and increasing acceptance and usage of U.S. Cellular's text messaging and picture messaging services, **easyedge**SM service and applications, and Smartphone handsets and services.

Inbound roaming revenues

The increase in inbound roaming revenues in 2008 was related primarily to an increase in roaming minutes of use, partially offset by a decline in rate per minute caused by decreases in rates with key roaming partners. 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 and services, which led to an increase in inbound traffic from other wireless carriers.

A portion of the inbound roaming revenues is derived from Verizon Wireless (Verizon) and Alltel Corporation (Alltel). During June 2008, Verizon and Alltel entered into an agreement pursuant to which Verizon will acquire Alltel, subject to certain conditions. Subject to regulatory approvals, this transaction is expected to close later in 2008 or in 2009. As a result of this transaction, the network footprints of Verizon and Alltel will be combined. This is expected to result in significant decreases in inbound roaming revenues for U.S. Cellular, since the combined Verizon and Alltel entity is expected to almost cease using U.S. Cellular's network in certain coverage areas that are currently used by Verizon and Alltel (as separate entities). U.S. Cellular anticipates that such a decline would more than offset the positive impact of the trends of increasing minutes of use and increasing data usage described in the preceding paragraph. Additional changes in the network footprints of other carriers also could have an adverse effect on U.S. Cellular's inbound roaming revenues. For example, consolidation among other carriers which have network footprints that currently overlap U.S. Cellular's network could further decrease the amount of inbound roaming revenues for U.S. Cellular. U.S. Cellular also anticipates that its roaming revenue per minute of use will decline over time due to the renegotiation of existing contracts as a result of the aforementioned industry consolidation. The foregoing could have an adverse effect on U.S. Cellular's business, financial condition or results of operations.

Long-distance and other revenues

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In 2008, there was a \$32.3 million increase in other revenues, partially offset by a \$3.5 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. U.S. Cellular was eligible to receive ETC funds in eleven states in 2008 and eight states in 2007; the ETC revenue amounts recorded were \$100.1 million in 2008 and \$70.8 million in 2007. See [Recent Developments](#) in the preceding [Overview](#) section for a discussion of the pending changes in USF funding for wireless ETCs.

Long-distance and other revenues also include long-distance roaming revenues. U.S. Cellular anticipates that long-distance roaming minutes of use and, therefore, long-distance roaming revenues might decline significantly over the next several quarters reflecting the expected completion of recently announced acquisitions in the industry.

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Equipment sales revenues

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

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

The increase in 2008 equipment sales revenues was driven by an increase of 14% in average revenue per handset sold, primarily reflecting the sale of more expensive handsets with expanded capabilities, partially offset by a decline in total handsets sold.

Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

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

- expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased \$21.8 million, or 18%, in 2008. The increase is due to an increase in roaming minutes of use driven by customer migration to national and wide area plans;
- maintenance, utility and cell site expenses increased \$20.9 million, or 10%, in 2008, primarily driven by increases in the number of cell sites within U.S. Cellular's network, rent expense per cell site, and software maintenance costs to support rapidly growing data needs. The number of cell sites totaled 6,716 in 2008 and 6,255 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; and

- the cost of network usage on U.S. Cellular's systems increased \$13.3 million, or 7%, in 2008, as voice and data usage on U.S. Cellular's systems increased driven primarily by continued migration to voice plans with a larger number of packaged minutes, text messaging plans, and other data offerings. In addition, data network and developer costs increased due to the increase in data usage.

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

- increases in the number of cell sites and other network facilities within U.S. Cellular's systems as it continues to add capacity and enhance quality;
- continued expansion of EVDO services to additional markets; and
- increases in voice minutes of use and data usage, 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 on U.S. Cellular's and other carriers' networks.

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Cost of equipment sold

Cost of equipment sold increased in 2008 primarily from a 16% increase in the average cost per handset sold as a result of sales of more expensive handsets with expanded capabilities. U.S. Cellular believes that the expanded capabilities will drive increases in data revenues.

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

Selling, general and administrative expenses

Selling, general and administrative expenses 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 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, and increased regulatory charges and taxes. Key components of the increase in Selling, general and administrative expenses were as follows:

- general and administrative expenses increased \$58.3 million, or 10%, in 2008, due to increases in expenses related to the operations of U.S. Cellular's regional support offices; increases related to bad debts expense (reflecting both higher revenues and higher bad debts experience as a percent of revenues); increases in consulting and outsourcing expenses; and increases in federal universal service fund contributions and other regulatory fees and taxes;
- advertising expenses increased \$37.6 million, or 23%, in 2008, primarily due to an increase in media purchases, including the launch in June 2008 of a new branding campaign, Believe in Something Better ;
- other selling and marketing expenses increased \$23.9 million, or 6%, in 2008, reflecting more retail sales associates, higher retail facilities expenses as U.S. Cellular assumed responsibility for the operation of certain retail stores previously operated by independent dealers, and higher commissions due to a greater number of customer renewal transactions.

U.S. Cellular expects Selling, general and administrative expenses to increase in the foreseeable future driven primarily by increases in expenses associated with acquiring, serving and retaining customers.

Loss on asset disposals, net

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

Table of Contents**RESULTS OF OPERATIONS WIRELINE**

TDS Telecom served 1,176,300 equivalent access lines at September 30, 2008, a decrease of 30,400 lines from the 1,206,700 equivalent access lines served at September 30, 2007.

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 773,700 equivalent access lines at September 30, 2008, an increase of 10,700 lines from the 763,000 equivalent access lines served at September 30, 2007. Acquisitions added 6,900 of these equivalent access lines in 2008.

TDS Telecom's CLEC served 402,600 equivalent access lines at September 30, 2008, a decrease of 41,100 lines from the 443,700 served at September 30, 2007. The decline in 2008 is primarily the result of attrition in residential customers due to a shift in TDS Telecom's CLEC strategy to focus on serving primarily a commercial subscriber base.

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

As of September 30,	2008	2007
ILEC		
Equivalent access lines	773,700	763,000
Physical access lines	568,900	595,100
Digital subscriber line (DSL) accounts	171,000	135,500
Dial-up Internet service accounts	39,500	61,300
Long-distance customers	346,600	346,400
CLEC		
Equivalent access lines	402,600	443,700
Digital subscriber line (DSL) accounts	41,200	43,600
Dial-up Internet service accounts	5,400	8,200

Table of Contents**TDS Telecom****Components of Operating Income**

Nine months ended September 30,	2008	2007	Increase/ (Decrease)	Percentage Change
		(Dollars in thousands)		
Operating revenues				
ILEC revenues	\$ 458,003	\$ 473,935	\$ (15,932)	(3.4)%
CLEC revenues	166,707	179,089	(12,382)	(6.9)%
Intra-company elimination	(5,218)	(4,469)	(749)	(16.8)%
TDS Telecom operating revenues	619,492	648,555	(29,063)	(4.5)%
Operating expenses				
ILEC expenses	363,879	377,417	(13,538)	(3.6)%
CLEC expenses	151,964	169,000	(17,036)	(10.1)%
Intra-company elimination	(5,218)	(4,469)	(749)	(16.8)%
TDS Telecom operating expenses	510,625	541,948	(31,323)	(5.8)%
TDS Telecom operating income	\$ 108,867	\$ 106,607	\$ 2,260	2.1%

Operating revenues

Operating revenues decreased in 2008 primarily due to a decline in ILEC and CLEC physical access lines, lower rates resulting from bundling of services and a decrease in network usage by inter-exchange carriers. These decreases were partially offset by the increase in ILEC data customers and revenues.

Operating expenses

Operating expenses decreased in 2008 primarily due to reduced contributions to certain ILEC national network access pools, various process improvements implemented by TDS Telecom and lower commission and advertising expenses related to the CLEC operations.

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

Nine months ended September 30,	2008	2007	Increase/ (Decrease)	Percentage Change
		(Dollars in thousands)		
Voice revenues	\$ 153,723	\$ 167,396	\$ (13,673)	(8.2)%
Data revenues	65,888	52,689	13,199	25.1%
Network access revenues	210,008	227,675	(17,667)	(7.8)%
Miscellaneous revenues	28,384	26,175	2,209	8.4%
Total operating revenues	458,003	473,935	(15,932)	(3.4)%
Cost of services and products (excluding depreciation, amortization and accretion reported below)	139,044	148,883	(9,839)	(6.6)%
Selling, general and administrative expenses	124,208	129,622	(5,414)	(4.2)%
Depreciation, amortization and accretion	100,595	98,912	1,683	1.7%
(Gain) loss on asset disposals, net	32	32		N/M
Total operating expenses	363,879	377,417	(13,538)	(3.6)%
Total operating income	\$ 94,124	\$ 96,518	\$ (2,394)	(2.5)%

N/M Not meaningful

Operating Revenues

Voice revenues (charges for the provision of local telephone exchange service and reselling long-distance service).

The decrease in voice revenues in 2008 was primarily due to a 5% decline in average physical access lines in service which negatively impacted local service revenues by \$6.8 million. Second line disconnections accounted for 19% of the physical access line decline and were significantly influenced by subscribers converting to DSL service. Additionally, local service and long-distance revenues decreased by \$5.5 million due to an increase in bundled offerings, which encourages customers to bundle products such as local service, long-distance, advance calling features and voice messaging services at a reduced price.

As discussed in Note 7 Extraordinary Item in the Notes to the Consolidated Financial Statements, TDS Telecom's ILEC operations discontinued the application of SFAS 71 at the end of the third quarter of 2007. The discontinuance of SFAS 71 further decreased voice revenues by \$2.2 million from 2007 to 2008. Under SFAS 71, telecommunications companies were required to recognize activation fees as revenue when a subscriber connected to TDS Telecom's local network. Upon discontinuance of SFAS 71, activation fees are required to be deferred over the estimated life of the subscriber.

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

The growth in data revenues in 2008 was primarily due to the growth in average DSL customers which grew by 29% and accounted for increased revenues of \$11.6 million. Customers converting to higher DSL speeds drove the average revenue per customer higher, increasing revenues \$1.5 million in 2008. Also, new data service offerings generated an additional \$1.6 million in revenues in 2008. These increases were partially offset by a \$1.7 million decrease in dial-up Internet subscriber revenue primarily related to a decrease in subscribers partially offset by higher dial-up rates.

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

Network access revenues declined \$9.1 million in 2008 compared to 2007 due to a 19% decline in intra-state minutes of use. In addition, TDS Telecom's ILEC operations elected in July of 2007 to exit certain national network access pools which resulted in an additional \$4.1 million reduction in access revenues in 2008. The decision to exit these pools correspondingly reduced operating expenses by \$7.8 million, resulting in a positive impact on operating income of \$3.7 million in 2008. A reduction in expenses recoverable through the interstate pools also reduced access revenues by \$2.8 million in 2008.

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

The increase in miscellaneous revenues was primarily due to the discontinuance of the application of SFAS 71 in the third quarter of 2007. Under SFAS 71, telecommunications companies were required for regulatory purposes to report bad debt expense as a reduction of revenues. Upon discontinuance of SFAS 71, bad debt expense is recorded as a Selling, general and administrative expense. In 2007, revenues were reduced by \$3.2 million for bad debt expense.

Operating Expenses

Cost of services and products

The reduction in cost of services and products expense in 2008 was primarily due to TDS Telecom's election to exit certain national network access pools in July of 2007. As noted above under Network access revenues, this decision decreased revenues by \$4.1 million in 2008, while also reducing contributions to the pool by \$7.8 million, resulting in a positive impact on operating income of \$3.7 million. Additionally, the discontinuance of the application of SFAS 71 (as noted above) decreased costs by \$1.3 million from 2007 to 2008. Under SFAS 71, telecommunications companies were required to recognize expenses associated with customer activation as expenses as incurred. Upon discontinuance of SFAS 71, costs associated with customer activation are required to be deferred and recognized over the estimated life of the subscriber.

Selling, general and administrative expenses

The decrease in Selling, general and administrative expenses in 2008 was primarily related to a reduction in payroll related costs of \$6.9 million as well as expense reductions of \$3.3 million due to cost reduction efforts. Partially offsetting these decreases was a \$4.8 million bad debt expense resulting from the discontinuance of the application of SFAS 71 in the third quarter of 2007. As noted in the Miscellaneous revenues section above, TDS Telecom's discontinuance of the application of SFAS 71 resulted in a reclassification of bad debt expense from miscellaneous revenues (where it was shown as a reduction in revenues) to an increase in Selling, general and administrative expense.

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

Nine months ended September 30,	2008	2007	Increase/ (Decrease)	Percentage Change
		(Dollars in thousands)		
Retail revenues	\$ 153,831	\$ 162,330	\$ (8,499)	(5.2)%
Wholesale revenues	12,876	16,759	(3,883)	(23.2)%
Total operating revenues	166,707	179,089	(12,382)	(6.9)%
Cost of services and products (excluding depreciation, amortization and accretion reported below)	82,781	88,402	(5,621)	(6.4)%
Selling, general and administrative expenses	51,846	62,687	(10,841)	(17.3)%
Depreciation, amortization and accretion	17,020	17,911	(891)	(5.0)%
(Gain) loss on asset disposals, net	317		317	N/M
Total operating expenses	151,964	169,000	(17,036)	(10.1)%
Total operating income	\$ 14,743	\$ 10,089	\$ 4,654	46.1%

N/M - Not meaningful

Operating Revenues

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

Average CLEC equivalent access lines in service decreased 7% in 2008 compared to 2007, which resulted in a decrease in retail revenues of \$10.8 million. Average residential equivalent access lines decreased 20%, while average commercial equivalent access lines experienced a slight decrease of 1%, as the CLEC operation continues to implement its strategic shift towards serving primarily a commercial subscriber base. The shift to a commercial focus generated higher average revenue per subscriber resulting in an increase in revenues of \$2.3 million in 2008.

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

The decline in wholesale revenues in 2008 was primarily driven by a 23% reduction in minutes of use.

Operating Expenses

Cost of services and products

Settlements with two inter-exchange carriers related to the pricing of certain services reduced the cost of services in 2008 by \$2.4 million. Additionally, a reduction in purchased network related services, primarily caused by the smaller residential customer base, decreased expenses by \$2.8 million.

Selling, general and administrative expenses

The decrease in 2008 was primarily due to cost containment efforts, primarily a reduction in payroll costs, which reduced expenses by \$6.3 million in 2008. Also, residential advertising expense decreased \$2.7 million as TDS Telecom continues to realign its expenditures to focus mainly on its commercial markets. In addition, a restructuring of commission compensation decreased expenses \$1.8 million.

Table of Contents**Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007****RESULTS OF OPERATIONS CONSOLIDATED**

Three Months Ended September 30,	2008	2007	Increase/ (Decrease)	Percentage Change
	(Dollars in thousands, except per share amounts)			
Operating revenues				
U.S. Cellular	\$ 1,091,875	\$ 1,015,834	\$ 76,041	7.5%
TDS Telecom	205,992	214,632	(8,640)	(4.0)%
All other(1)	6,731	6,419	312	4.9%
Total operating revenues	1,304,598	1,236,885	67,713	5.5%
Operating expenses				
U.S. Cellular	971,918	914,895	57,023	6.2%
TDS Telecom	170,131	178,598	(8,467)	(4.7)%
All other(1)	10,410	8,903	1,507	16.9%
Total operating expenses	1,152,459	1,102,396	50,063	4.5%
Operating income (loss)				
U.S. Cellular	119,957	100,939	19,018	18.8%
TDS Telecom	35,861	36,034	(173)	(0.5)%
All other(1)	(3,679)	(2,484)	(1,195)	(48.1)%
Total operating income (loss)	152,139	134,489	17,650	13.1%
Other income and (expenses)				
Equity in earnings of unconsolidated entities	22,566	23,823	(1,257)	(5.3)%
Interest and dividend income	8,617	18,687	(10,070)	(53.9)%
Interest expense	(31,684)	(49,730)	18,046	36.3%
Gain on investments and financial instruments	31,997	194,036	(162,039)	(83.5)%
Other, net	383	(865)	1,248	N/M
Total investment and other income	31,879	185,951	(154,072)	(82.9)%
Income before income taxes, minority interest and extraordinary item				
	184,018	320,440	(136,422)	(42.6)%
Income tax expense	61,024	115,907	(54,883)	(47.4)%
Income before minority interest and extraordinary item				
	122,994	204,533	(81,539)	(39.9)%
Minority share of income, net of tax				