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TELEPHONE & DATA SYSTEMS INC /DE/
Form 424B3
November 06, 2007

Filed Pursuant to Rule 424(b)(3)

Registration Nos. 033-08857-99

033-59435-99

333-125001

PROSPECTUS SUPPLEMENT

to

PROSPECTUS DATED AUGUST 20, 2007

The attached quarterly report on Form 10-Q for the period ended September 30, 2007 was filed by the registrant with the Securities and Exchange Commission, and should be read in conjunction with the Prospectus dated August 20, 2007.

The date of this Prospectus Supplement is November 6, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2007**

OR

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

For the transition period from _____ to _____

Commission File Number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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, 2007
Common Shares, \$.01 par value	52,992,984 Shares
Special Common Shares, \$.01 par value	58,637,510 Shares
Series A Common Shares, \$.01 par value	6,444,661 Shares

TELEPHONE AND DATA SYSTEMS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE PERIOD ENDED SEPTEMBER 30, 2007

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Signatures

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****UNAUDITED**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Dollars in thousands, except per share amounts)			
Operating Revenues	\$ 1,236,885	\$ 1,112,070	\$ 3,586,276	\$ 3,239,834
Operating Expenses				
Cost of services and products (exclusive of depreciation, amortization and accretion expense shown below)	436,630	390,182	1,257,879	1,136,047
Selling, general and administrative expense	474,071	424,234	1,323,623	1,228,221
Depreciation, amortization and accretion expense	191,695	187,279	573,533	550,698
Total Operating Expenses	1,102,396	1,001,695	3,155,035	2,914,966
Operating Income	134,489	110,375	431,241	324,868
Investment and Other Income (Expense)				
Equity in earnings of unconsolidated entities	23,823	24,080	71,394	66,376
Interest and dividend income	18,687	16,323	182,651	174,351
Interest expense	(49,730)	(59,365)	(162,776)	(177,185)
Fair value adjustment of derivative instruments	(54,824)	34,619	(157,073)	22,881
Gain on sale of investments	248,860		386,780	91,418
Other expense	(865)	(4,319)	(4,957)	(6,187)
Total Investment and Other Income (Expense)	185,951	11,338	316,019	171,654
Income Before Income Taxes, Minority Interest and Extraordinary Item	320,440	121,713	747,260	496,522
Income tax expense	115,907	35,718	283,845	185,246
Income Before Minority Interest and Extraordinary Item	204,533	85,995	463,415	311,276
Minority share of income	(15,623)	(10,756)	(63,807)	(33,281)
Income Before Extraordinary Item	188,910	75,239	399,608	277,995
Extraordinary item, net of taxes (Note 8)	42,827		42,827	
Net Income	231,737	75,239	442,435	277,995
Preferred dividend requirement	(13)	(51)	(39)	(152)
Net Income Available To Common	\$ 231,724	\$ 75,188	\$ 442,396	\$ 277,843

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Basic Weighted Average Shares Outstanding (000s)		118,705		115,768		117,526		115,759
Income before extraordinary item	\$	1.59	\$	0.65		3.40	\$	2.40
Extraordinary item		0.36				0.36		
Basic Earnings Per Share (Note 9)	\$	1.95	\$	0.65	\$	3.76	\$	2.40
Diluted Weighted Average Shares Outstanding (000s)		119,950		116,862		119,164		116,623
Income before extraordinary item	\$	1.57	\$	0.64		3.33	\$	2.38
Extraordinary item		0.36				0.36		
Diluted Earnings Per Share (Note 9)	\$	1.93	\$	0.64	\$	3.69	\$	2.38
Dividends Per Share	\$	0.0975	\$	0.0925	\$	0.2925	\$	0.2775

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWSUNAUDITED

	Nine Months Ended September 30,	
	2007	2006
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income	\$ 442,435	\$ 277,995
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities:		
Extraordinary item, net of taxes	(42,827)	
Depreciation, amortization and accretion	573,533	550,698
Bad debts expense	51,131	49,748
Stock-based compensation expense	22,946	27,650
Fair value adjustment of derivative instruments	157,073	(22,881)
Deferred income taxes	(195,108)	(67,956)
Equity in earnings of unconsolidated entities	(71,394)	(66,376)
Distributions from unconsolidated entities	47,871	39,692
Minority share of income	63,807	33,281
Gain on sale of assets	(5,000)	
Gain on investments	(386,780)	(91,418)
Noncash interest expense	15,855	15,981
Other noncash expense	2,520	5,821
Other operating activities		3,162
Changes in assets and liabilities:		
Change in accounts receivable	(79,571)	(67,149)
Change in inventory	4,262	15,431
Change in accounts payable	(2,439)	(51,436)
Change in customer deposits and deferred revenues	24,760	9,923
Change in accrued taxes	180,697	24,505
Change in accrued interest	4,295	6,971
Change in other assets and liabilities	(34,836)	(22,642)
	773,230	671,000
Cash Flows (Used in) Investing Activities		
Additions to property, plant and equipment	(464,795)	(516,610)
Cash paid for acquisitions, net of cash acquired	(20,569)	(98,353)
Cash received from divestitures	4,277	722
Proceeds from sales of investments	91,740	102,549
Proceeds from return of investment		36,202
Other investing activities	(1,345)	(6,168)
	(390,692)	(481,658)
Cash Flows (Used in) Financing Activities		
Issuance of notes payable	25,000	390,000
Issuance of long-term debt	2,857	560
Repayment of notes payable	(60,000)	(375,000)
Repayment of long-term debt	(2,460)	(202,371)
Repayment of medium-term notes		(35,000)
TDS Common Shares and Special Common Shares issued for benefit plans	111,089	3,047

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Excess tax benefit from exercise of stock awards	24,530	
U.S. Cellular Common Shares issued for benefit plans	16,474	3,856
Repurchase of TDS Special Common Shares	(85,584)	
Repurchase of U.S. Cellular Common Shares	(65,202)	
Capital distributions to minority partners	(6,258)	(10,085)
Dividends paid	(34,337)	(32,247)
Other financing activities	(1,994)	1,863
	(75,885)	(255,377)
Net Increase/(Decrease) in Cash and Cash Equivalents	306,653	(66,035)
Cash and Cash Equivalents		
Beginning of period	1,013,325	1,095,791
End of period	\$ 1,319,978	\$ 1,029,756

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETSASSETSUNAUDITED

	September 30, 2007	December 31, 2006
	(Dollars in thousands)	
Current Assets		
Cash and cash equivalents	\$ 1,319,978	\$ 1,013,325
Accounts receivable		
Due from customers, less allowance of \$16,087 and \$15,807, respectively	383,541	357,279
Other, principally connecting companies, less allowance of \$6,939 and \$9,576, respectively	161,173	162,888
Marketable equity securities	1,802,076	1,205,344
Inventory	126,333	128,981
Prepaid expenses	58,448	43,529
Other current assets	21,743	61,738
	3,873,292	2,973,084
Investments		
Marketable equity securities	10	1,585,286
Licenses	1,532,165	1,520,407
Goodwill	673,628	647,853
Customer lists, net of accumulated amortization of \$78,743 and \$68,110, respectively	26,939	26,196
Investments in unconsolidated entities	225,268	197,636
Other investments, less valuation allowance of \$55,144 in both periods	10,948	11,073
	2,468,958	3,988,451
Property, Plant and Equipment		
In service and under construction	8,055,003	7,700,746
Less accumulated depreciation	4,559,975	4,119,360
	3,495,028	3,581,386
Other Assets and Deferred Charges		
	50,630	56,593
	\$ 9,887,908	\$ 10,599,514

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETSLIABILITIES AND STOCKHOLDERS' EQUITYUNAUDITED

	September 30, 2007	December 31, 2006
	(Dollars in thousands)	
Current Liabilities		
Current portion of long-term debt	\$ 2,967	\$ 2,917
Forward contracts	1,042,067	738,408
Notes payable		35,000
Accounts payable	296,036	294,932
Customer deposits and deferred revenues	166,226	141,164
Accrued interest	31,024	26,729
Accrued taxes	158,707	38,324
Accrued compensation	76,434	72,804
Derivative liability	561,069	359,970
Net deferred income tax liability	348,749	236,397
Other current liabilities	117,875	138,086
	2,801,154	2,084,731
Deferred Liabilities and Credits		
Net deferred income tax liability	563,405	950,348
Derivative liability		393,776
Asset retirement obligation	167,754	232,312
Other deferred liabilities and credits	154,148	136,733
	885,307	1,713,169
Long-Term Debt		
Long-term debt, excluding current portion	1,634,098	1,633,308
Forward contracts		987,301
	1,634,098	2,620,609
Commitments and Contingencies		
Minority Interest in Subsidiaries	652,371	609,722
Preferred Shares	860	863
Common Stockholders' Equity		
Common Shares, par value \$.01 per share; authorized 100,000,000 shares; issued 56,570,000 and 56,558,000 shares, respectively	566	566
Special Common Shares, par value \$.01 per share; authorized 165,000,000 shares, issued 62,947,000 and 62,941,000 shares, respectively	629	629
	64	64

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Series A Common Shares, par value \$.01 per share; authorized 25,000,000 shares; issued and outstanding 6,445,000 and 6,445,000 shares; respectively

Capital in excess of par value	2,040,242	1,992,597
Treasury Shares, at cost:		
Common Shares, 3,577,000 and 4,676,000 shares, respectively	(128,701)	(187,103)
Special Common Shares 4,309,000 and 4,676,000 shares, respectively	(178,169)	(187,016)
Accumulated other comprehensive income	405,841	522,113
Retained earnings	1,773,646	1,428,570
	3,914,118	3,570,420
	\$ 9,887,908	\$ 10,599,514

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accounting policies of Telephone and Data Systems, Inc. (TDS) conform to accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of TDS and its majority-owned subsidiaries, including TDS 80.7%-owned wireless telephone subsidiary, United States Cellular Corporation (U.S. Cellular), TDS 100%-owned wireline telephone subsidiary, TDS Telecommunications Corporation (TDS Telecom) and TDS 80%-owned printing and distribution company, Suttle Straus, Inc. In addition, the consolidated financial statements include all entities in which TDS has a variable interest that requires TDS to absorb a majority of the entity's expected gains or losses. All material intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the 2007 presentation.

The consolidated financial statements included herein have been prepared by TDS, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, TDS believes that the disclosures included herein are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in TDS Annual Report on Form 10-K for the year ended December 31, 2006 (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, 2007, and the results of operations for the three and nine months ended September 30, 2007 and 2006 and the cash flows for the nine months ended September 30, 2007 and 2006. The results of operations for the three and nine months ended September 30, 2007 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 currently. Pension costs were \$4.1 million and \$11.2 million for the three and nine months ended September 30, 2007, respectively, and \$3.6 million and \$11.5 million for the three and nine months ended September 30, 2006, respectively.

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

Other Postretirement Benefits

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Dollars in thousands)			
Service Cost	\$ 609	\$ 544	\$ 1,827	\$ 1,633
Interest on accumulated benefit obligation	858	692	2,574	2,075
Expected return on plan assets	(821)	(648)	(2,463)	(1,945)
Amortization of:				
Prior service cost	(207)	(208)	(622)	(623)
Net loss	340	292	1,021	876
Net postretirement cost	\$ 779	\$ 672	\$ 2,337	\$ 2,016

TDS contributed \$7.0 million to the postretirement plan during the second quarter of 2007.

Amounts Collected from Customers and Remitted to Governmental Authorities

TDS records amounts collected from customers and remitted to governmental authorities net within a tax liability account if the tax is assessed upon the customer and TDS merely acts as an agent in collecting the tax on behalf of the imposing governmental authority. If the tax is assessed upon TDS, then amounts collected from customers as recovery of the tax are recorded in revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expense on the Consolidated Statements of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled \$39.5 million and \$108.4 million for the three and nine months ended September 30, 2007, respectively, and \$24.2 million and \$68.8 million for the three and nine months ended September 30, 2006, respectively.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures related to the use of fair value measures in financial statements. SFAS 157 does not expand the use of fair value measurements in financial statements, but standardizes its definition and guidance in U.S. GAAP. SFAS 157 emphasizes that fair value is a market-based measurement and not an entity-specific measurement, based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). SFAS 157 establishes a fair value hierarchy, from observable market data as the highest level to an entity's own fair value assumptions as the lowest level. SFAS 157 is effective for TDS' 2008 financial statements. TDS is currently reviewing the requirements of SFAS 157 and has not determined the impact, if any, on its financial position or results of operations.

In September 2006, the FASB ratified Emerging Issues Task Force Issue No. 06-1, *Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider* (EITF 06-1). This guidance requires the application of EITF 01-9, *Accounting for Consideration Given by a Vendor to a Customer* (EITF 01-9), when consideration is given to a reseller or manufacturer for benefit to the service provider's end customer. EITF 01-9 requires that the consideration given be recorded as a liability at the time of the sale of the equipment and also provides guidance for the classification of the expense. EITF 06-1 is effective for TDS' 2008 financial statements. TDS is currently reviewing the requirements of EITF 06-1 and has not yet determined the

impact, if any, on its financial position or results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected shall be reported in earnings at each subsequent reporting date. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for TDS 2008 financial statements. TDS is currently reviewing the requirements of SFAS 159 and has not yet determined the impact, if any, on its financial position or results of operations.

3. Acquisitions, Divestitures and Exchanges

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

On February 1, 2007, U.S. Cellular purchased 100% of the membership interests of Iowa 15 Wireless, LLC (Iowa 15) and obtained the 25 megahertz Federal Communications Commission (FCC) cellular license to provide wireless service in Iowa Rural Service Area (RSA) 15 for approximately \$18.2 million in cash. This acquisition increased investments in licenses, goodwill and customer lists by \$7.9 million, \$5.9 million and \$1.6 million, respectively. The goodwill of \$5.9 million is deductible for income tax purposes.

In addition, during the first nine months of 2007, TDS Telecom and Suttle Straus each acquired a company for cash, which purchases aggregated to \$2.3 million. These acquisitions increased goodwill by \$1.8 million of which \$1.0 million is deductible for income tax purposes.

A wholly-owned subsidiary of U.S. Cellular is a limited partner in Barat Wireless, L.P. (Barat Wireless), an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 66. Barat Wireless was qualified to receive a 25% discount available to very small businesses which were defined as having annual gross revenues of less than \$15 million. At the conclusion of the auction on September 18, 2006, Barat Wireless was the high bidder with respect to 17 licenses and had bid \$127.1 million, net of its discount. On April 30, 2007, the FCC granted Barat Wireless applications with respect to the 17 licenses for which it was the winning bidder.

Barat Wireless is in the process of developing its long-term business and financing plans. As of September 30, 2007, U.S. Cellular had made capital contributions and advances to Barat Wireless and/or its general partner of \$127.2 million, which are included in Licenses in the Consolidated Balance Sheets. Barat Wireless used the funding to pay the FCC an initial deposit of \$79.9 million on July 14, 2006 to allow it to participate in Auction 66. On October 18, 2006, Barat Wireless paid the balance due at the conclusion of the auction for the licenses with respect to which Barat Wireless was the high bidder; such amount totaled \$47.2 million. For financial statement purposes, U.S. Cellular consolidates Barat Wireless and Barat Wireless, Inc., the general partner of Barat Wireless, pursuant to the guidelines of FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51*, (FIN 46(R)), as U.S. Cellular anticipates benefiting from or absorbing a majority of Barat Wireless expected gains or losses. Pending finalization of Barat Wireless permanent financing plan, and upon request by Barat Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Barat Wireless and/or its general partner.

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In October 2006, Midwest Wireless Communications, L.L.C. (Midwest Wireless) was sold to ALLTEL Corporation. In connection with the sale, U.S. Cellular became entitled to receive approximately \$106.0 million in cash with respect to its interest in Midwest Wireless. 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. During the first nine months of 2007, U.S. Cellular received \$4.3 million of funds that were distributed from the aforementioned escrow. At September 30, 2007, the amount which U.S. Cellular might be entitled to receive from the escrow in future periods was \$6.6 million, excluding accrued interest income.

In April 2006, U.S. Cellular purchased the remaining ownership interest in a Tennessee wireless market, in which it had previously owned a 16.7% interest, for approximately \$18.8 million in cash. This acquisition increased investments in licenses, goodwill and customer lists by \$5.5 million, \$4.0 million and \$2.0 million, respectively. The \$4.0 million of goodwill is not deductible for income tax purposes.

A wholly-owned subsidiary of U.S. Cellular is a limited partner in Carroll Wireless L.P. (Carroll Wireless), an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 58. Carroll Wireless was qualified to bid on closed licenses that were available only to companies included under the FCC definition of entrepreneurs, which are small businesses that have a limited amount of assets and revenues. In addition, Carroll Wireless bid on open licenses that were not subject to restriction. With respect to these licenses, however, Carroll Wireless was qualified to receive a 25% discount available to very small businesses which were defined as having average annual gross revenues of less than \$15 million. Carroll Wireless was a successful bidder for 17 license areas in Auction 58, which ended on February 15, 2005. The aggregate amount paid to the FCC for the 17 licenses was \$129.9 million, net of the discounts to which Carroll Wireless was entitled. These 17 license areas cover portions of 12 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas. On January 6, 2006, the FCC granted Carroll Wireless applications with respect to 16 of the 17 licenses for which it had been the successful bidder and dismissed one application, relating to Walla Walla, Washington. Following the completion of Auction 58, the FCC determined that a portion of the Walla Walla license was already licensed to another party and should not have been included in Auction 58. Accordingly, in 2006, Carroll Wireless received a full refund of the \$0.2 million previously paid to the FCC with respect to the Walla Walla license.

Carroll Wireless is in the process of developing its long-term business and financing plans. As of September 30, 2007, U.S. Cellular had made capital contributions and advances to Carroll Wireless and/or its general partner of approximately \$129.9 million; \$129.7 million of this amount is included in Licenses in the Consolidated Balance Sheets. For financial statement purposes, U.S. Cellular consolidates Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless, pursuant to the guidelines of FIN 46(R), as U.S. Cellular anticipates benefiting from or absorbing a majority of Carroll Wireless expected gains or losses. Pending finalization of Carroll Wireless permanent financing plan, and upon request by Carroll Wireless, U.S. Cellular may make additional capital contributions and advances to Carroll Wireless and/or its general partner. U.S. Cellular has approved additional funding of \$1.4 million of which \$0.1 million was provided to Carroll Wireless as of September 30, 2007.

4. Gain on Sale of Assets

In December 2006, U.S. Cellular entered into an agreement to sell \$226.0 million face amount of accounts receivable written off in previous periods; the proceeds from the sale were \$5.9 million. The agreement transferred all rights, title, and interest in the account balances, along with the right to collect all amounts due, to the buyer. The sale was subject to a 180-day period in which the buyer was entitled to request a refund for unenforceable accounts. The transaction was recognized as a sale during the fourth quarter of 2006 in accordance with the provisions of FASB Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with the gain deferred until expiration of the recourse period. During the second quarter 2007, U.S. Cellular recognized a gain of \$5.0 million, net of refunds for unenforceable accounts. The gain is included in the Selling, general and administrative expense on the Consolidated Statements of Operations. All expenses related to the transaction were recognized in the period incurred.

5. Fair Value Adjustments of Derivative Instruments

Fair value adjustments of derivative instruments resulted in a loss of \$54.8 million and \$157.1 million in the three and nine months ended September 30, 2007, respectively, and a gain of \$34.6 million and \$22.9 million in the three and nine months ended September 30, 2006, respectively. Fair value adjustments of derivative instruments reflect the change in the fair value of the bifurcated embedded collars within the forward contracts related to the Deutsche Telekom and Vodafone marketable equity securities not designated as a hedge. See Note 13 Marketable Equity Securities and Forward Contracts and Note 17 Long-Term Debt and Forward Contracts.

The accounting for the embedded collars as derivative instruments not designated as a hedge results in increased volatility in the results of operations, as fluctuation in the market price of the underlying Deutsche Telekom and Vodafone marketable equity securities results in changes in the fair value of the embedded collars being recorded in the Consolidated Statements of Operations. Also included in the fair value adjustment of derivative instruments are the gains and losses related to the ineffectiveness of the VeriSign fair value hedge.

6. Gain on Sale of Investments

TDS recorded a gain from the sale of investments of \$386.8 million in 2007. The gain consists of a \$137.9 million gain on the settlement of forward contracts and the disposition of remaining VeriSign Common Shares and U.S. Cellular owned Vodafone ADRs recorded in the second quarter of 2007 and a \$248.9 million gain on the settlement of a portion of the Deutsche Telekom forward contracts and the disposition of remaining Deutsche Telekom shares related to such forward contracts recorded in the third quarter of 2007. As a result of the Deutsche Telekom settlement, TDS now owns 85,969,689 of the Deutsche Telekom ordinary shares (131,461,861 shares owned as of December 31, 2006). See Note 17 Long-Term Debt and Forward Contracts for additional information related to forward contracts. In the second quarter of 2006, Gain on investments totaled \$91.4 million primarily resulting from TDS Telecom's remittance of its Rural Telephone Bank (RTB) shares to the RTB which resulted in a gain of \$90.3 million.

7. Income Taxes

The overall effective tax rate on income before income taxes and minority interest for the three and nine months ended September 30, 2007 was 36.2% and 38.0%, respectively, and 29.3% and 37.3% for the three and nine months ended September 30, 2006, respectively. The effective tax rate for the 2007 period is higher than 2006 primarily due to the favorable resolution of state audits in 2006.

Due to discontinuance of the application of SFAS 71 (see Note 8) Deferred tax liabilities increased by \$27.0 million in the third quarter of 2007.

Effective January 1, 2007, TDS adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). In accordance with FIN 48, TDS recognized a cumulative-effect adjustment of \$4.4 million, decreasing its liability for unrecognized tax benefits, interest, and penalties and increasing the January 1, 2007 balance of Common Stockholders' Equity. Of this amount, \$20.7 million increases accumulated other comprehensive income and \$16.3 million represents the cumulative reduction of beginning retained earnings.

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At January 1, 2007, TDS had \$28.4 million in unrecognized tax benefits which, if recognized, would reduce income tax expense by \$14.3 million, net of the federal benefit from state income taxes. Included in the balance of unrecognized tax benefits at January 1, 2007, is an immaterial amount related to tax positions for which it is possible that the total amounts could change during the next twelve months. At September 30, 2007 TDS had \$33.9 million in unrecognized tax benefits, which, if recognized, would reduce income tax expense by \$18.1 million, net of the federal benefit from state income taxes.

TDS recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. This amount totaled \$1.2 million and \$3.4 million for the three and nine months ended September 30, 2007, respectively. Accrued interest and penalties were \$1.3 million and \$4.7 million as of January 1, 2007 and September 30, 2007, respectively.

TDS and its subsidiaries file federal and state income tax returns. With few exceptions, TDS is no longer subject to federal, state and local income tax examinations by tax authorities for years prior to 2002. TDS consolidated federal income tax returns for the years 2002-2005 are currently under examination by the Internal Revenue Service. TDS and its subsidiaries are also under examination by various state taxing authorities.

8. Extraordinary Item - Discontinuance of the Application of Statement of Financial Accounting Standard No. 71, *Accounting for the Effects of Certain Types of Regulation*

Historically, TDS Telecom's incumbent local exchange carrier (ILEC) operations followed the accounting for regulated enterprises prescribed by FASB Statement of Financial Accounting Standard No. 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS 71). This accounting recognizes the economic effects of rate-making actions of regulatory bodies in the financial statements of the TDS Telecom ILEC operations.

TDS Telecom has regularly monitored the appropriateness of the application of SFAS 71. Recent changes in TDS Telecom's business environment have caused competitive forces to surpass regulatory forces such that TDS Telecom has concluded that it is no longer reasonable to assume that rates set at levels that will recover the enterprise's cost can 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 has intensified in 2007 from cable and wireless operators who have extended 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 has 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 has 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 is 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 FASB Statement of Financial Accounting Standard No. 101, *Regulated Enterprises - Accounting for the Discontinuance 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
	(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 has assessed the useful lives of fixed assets and determined that the impacts of any changes were not material.

9. Earnings Per Share

Basic earnings per share is computed by dividing net income (loss) available to common by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using net income (loss) available to common and weighted average common shares adjusted to include the effect of potentially dilutive securities.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
(Dollars and shares in thousands, except earnings per share)				
Basic Earnings per Share:				
Income before extraordinary item	\$ 188,910	\$ 75,239	\$ 399,608	\$ 277,995
Preferred dividend requirement	(13)	(51)	(39)	(152)
Income before extraordinary item available to common	188,897	75,188	399,569	277,843
Extraordinary item, net of taxes	42,827		42,827	
Net Income available to common used in basic earnings per share	\$ 231,724	\$ 75,188	\$ 442,396	\$ 277,843
Diluted Earnings per Share:				
Income before extraordinary item available to common	\$ 188,897	\$ 75,188	\$ 399,569	\$ 277,843
Minority income adjustment (1)	(479)	(270)	(2,424)	(945)
Preferred dividend adjustment (2)	12	50	37	150
Income before extraordinary item available to common	188,430	74,968	397,182	277,048
Extraordinary item, net of taxes	42,827		42,827	
Net Income available to common used in diluted earnings per share	\$ 231,257	\$ 74,968	\$ 440,009	\$ 277,048
Weighted average number of shares of common stock used in basic earnings per share:				
Common Shares	52,953	51,486	52,323	51,480
Special Common Shares	59,309	57,836	58,758	57,832
Series A Common Shares	6,443	6,446	6,445	6,447
Weighted average number of shares of common stock used in basic earnings per share	118,705	115,768	117,526	115,759
Effects of Dilutive Securities:				
Effects of stock options (3)	1,011	908	1,413	705
Effects of Restricted Stock Units(4)	181	27	173	
Conversion of preferred shares	53	159	52	159
Weighted average number of shares of common stock used in diluted earnings per share	119,950	116,862	119,164	116,623
Basic Earnings per Share				
Income before extraordinary item	\$ 1.59	\$ 0.65	\$ 3.40	\$ 2.40
Extraordinary item, net of taxes	0.36		0.36	
	\$ 1.95	\$ 0.65	\$ 3.76	\$ 2.40

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Diluted Earnings per Share								
Income before extraordinary item	\$	1.57	\$	0.64	\$	3.33	\$	2.38
Extraordinary item, net of taxes		0.36				0.36		
	\$	1.93	\$	0.64	\$	3.69	\$	2.38

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

(2) The preferred dividend adjustment reflects the dividend reduction in the event any preferred series were dilutive, and therefore converted for shares.

(3) Stock options convertible into 863,000 Special Common Shares were not included in computing Diluted Earnings per Share in the three months ended September 30, 2007, because their effects were antidilutive. Stock options convertible into 112,000 Common Shares and 403,000 Special Common Shares were not included in computing Diluted Earnings per Share in the nine months ended September 30, 2007 because their effects were antidilutive. Stock options convertible into 670,000 Common Shares and 670,000 Special Common Shares were not included in computing Diluted Earnings per Share in the three months ended September 30, 2006, because their effects were antidilutive. Stock options convertible into 1,293,000 Common Shares and 2,398,000 Special Common Shares were not included in computing Diluted Earnings per Share in the nine months ended September 30, 2006 because their effects were antidilutive.

(4) Restricted stock units convertible into 31,000 Special Common Shares were not included in computing Diluted Earnings per Share in the nine months ended September 30, 2007, because their effects were antidilutive.

10. Supplemental Cash Flow Disclosures Non-Cash Financing Activities

TDS delivered 2,123,310 VeriSign common shares, and 41,008,930 Deutsche Telekom ordinary shares related to forward contracts that matured in May 2007 and July through September 2007, respectively, with an aggregate fair market value of \$798.4 million to settle the \$537.7 million principal amount of prepaid forward contracts (which included \$4.6 million of accreted interest) and \$260.7 million of the related derivative liability.

Upon settlement of these prepaid forward contracts and related derivative liability, TDS disposed of its remaining 238,023 VeriSign common shares and 4,483,242 Deutsche Telekom ordinary shares related to these forward contracts. TDS recorded a gain of \$255.1 million in the nine months ended September 30, 2007 (of which \$248.9 million was recorded in the third quarter) on the settlement of the prepaid forward contracts and the related derivative liability and the disposition of the remaining VeriSign and Deutsche Telekom shares.

In May 2007, U.S. Cellular delivered 8,815,475 American Depositary Receipts (ADRs) of Vodafone Group, Plc (Vodafone) with a fair market value of \$254.1 million to settle the \$159.9 million principal amount of prepaid forward contracts and \$94.2 million of related derivative liabilities.

Upon settlement of the prepaid forward contracts and related derivative liability, U.S. Cellular disposed of its remaining 149,223 Vodafone ADRs. U.S. Cellular recorded a gain of \$131.7 million in the nine months ended September 30, 2007 (all in the second quarter) on the settlement of the prepaid forward contracts and the related derivative liability and the disposition of remaining Vodafone ADRs.

In the nine months ended September 30, 2007, U.S. Cellular withheld 544,000 Common Shares aggregating \$43.5 million for the payment of the exercise price and income taxes from employees who exercised stock options or who received vested stock awards.

See Note 13 Marketable Equity Securities and Forward Contracts and Note 17 Long-Term Debt and Forward Contracts for additional information.

11. Licenses and Goodwill

Changes in TDS licenses and goodwill are primarily the result of acquisitions, divestitures and impairment of its licenses, wireless markets and telephone companies.

TDS Telecom's incumbent local exchange carriers are designated as ILEC in the following tables and its competitive local exchange carriers are designated as CLEC.

Licenses	U.S. Cellular (1)	TDS Telecom CLEC (Dollars in thousands)	Total
Balance December 31, 2006	\$ 1,517,607	\$ 2,800	\$ 1,520,407
Acquisitions	7,900		7,900
Impairment	(2,136)		(2,136)
Step acquisition allocation adjustment (2)	5,994		5,994
Balance September 30, 2007	\$ 1,529,365	\$ 2,800	\$ 1,532,165
Balance December 31, 2005	\$ 1,385,543	\$ 2,800	\$ 1,388,343
Acquisitions	5,534		5,534
Other (3)	79,772		79,772
Balance September 30, 2006	\$ 1,470,849	\$ 2,800	\$ 1,473,649

(1) U.S. Cellular's beginning and ending balances include \$23.3 million of licenses allocated from TDS.

(2) The step acquisition allocation adjustment is the allocation of value related to U.S. Cellular's share buyback program. See Note 20 - Common Share Repurchase Programs below for a discussion of U.S. Cellular's purchase of 838,000 of its Common Shares from an investment banking firm in a private transaction pursuant to the accelerated share repurchase (ASR) agreements.

(3) Includes \$79.9 million representing deposits made to the FCC for Barat Wireless licenses with respect to which Barat Wireless was the high bidder in Auction 66.

Goodwill	U.S. Cellular (1)	TDS Telecom ILEC	Other (2)	Total
	(Dollars in thousands)			
Balance December 31, 2006	\$ 246,920	\$ 398,652	\$ 2,281	\$ 647,853
Acquisitions	5,864	259	1,521	7,644
Step acquisition allocation adjustment (3)	18,131			18,131
Balance September 30, 2007	\$ 270,915	\$ 398,911	\$ 3,802	\$ 673,628
Balance December 31, 2005	\$ 242,703	\$ 398,652	\$ 2,281	\$ 643,636
Acquisitions	3,932			3,932
Other	318			318
Balance September 30, 2006	\$ 246,953	\$ 398,652	\$ 2,281	\$ 647,886

- (1) U.S. Cellular's balances in each period were reduced by \$(238.5) million of goodwill previously impaired at TDS.
- (2) Consists of goodwill related to Suttle Straus.
- (3) The step acquisition allocation adjustment is the allocation of value related to U.S. Cellular's share buyback program. See Note 20 - Common Share Repurchase Programs below for a discussion of U.S. Cellular's purchase of 838,000 of its Common Shares from an investment banking firm in a private transaction pursuant to the ASR agreements.

See Note 3 - Acquisitions, Divestitures and Exchanges for information regarding purchase and sale transactions which affected licenses and goodwill during the period.

Licenses and goodwill, which are indefinite-lived assets, must be reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. TDS performs the annual impairment review on licenses and goodwill during the second quarter of its fiscal year. Accordingly, the annual impairment tests for licenses and goodwill for 2007 and 2006 were performed in the second quarter of 2007 and 2006. Such impairment tests indicated that there was an impairment of licenses at U.S. Cellular totaling \$2.1 million in 2007; the loss is included in Depreciation, amortization and accretion expense on the Consolidated Statements of Operations. There was no impairment of licenses in 2006, and no impairment of goodwill in either 2007 or 2006.

U.S. Cellular's license impairments in 2007 were related to two of its six units of accounting in which operations have not yet begun. The carrying values of licenses associated with these six units of accounting are tested separately from those associated with U.S. Cellular's operating licenses. Fair values for such units of accounting were determined by reference to values established by auctions and other market transactions involving licenses comparable to those included in each specific unit of accounting.

12. Customer Lists

Customer lists, which are intangible assets resulting from acquisitions of wireless markets or step acquisition allocation of value related to U.S. Cellular's share buyback programs, are amortized based on average customer retention periods using the double declining balance method in the first year, switching to straight-line over the remaining estimated life. The changes in the customer lists for the nine months ended September 30, 2007 and 2006 were as follows:

Customer Lists	September 30, 2007	September 30, 2006
	(Dollars in thousands)	
Balance, beginning of period	\$ 26,196	\$ 47,649
Acquisitions	1,560	2,042
Impairment	(1,947)	
Amortization	(10,633)	(17,643)
Step acquisition allocation adjustment (1)	11,763	
Balance, end of period	\$ 26,939	\$ 32,048

(1) The step acquisition allocation adjustment is the allocation of value related to U.S. Cellular's share buyback programs. See Note 20 - Common Share Repurchase Programs below for a discussion of U.S. Cellular's purchase of 838,000 of its Common Shares from an investment banking firm in private transactions pursuant to the ASR agreements.

U.S. Cellular performs an annual impairment test of customer list balances in the third quarter of its fiscal year. During the third quarter of 2007, such test indicated that the carrying value of certain customer list balances exceeded their estimated fair values and an impairment loss of \$1.9 million was recorded; the loss is included in Depreciation, amortization and accretion on the Consolidated Statements of Operations. Fair values were determined based upon a present value analysis of expected future cash flows. There was no impairment of customer lists in 2006.

Based on the customer list balance as of September 30, 2007, amortization expense for the fourth quarter of 2007 and for the years 2008 - 2012 is expected to be \$3.3 million, \$9.9 million, \$6.6 million, \$5.0 million, \$2.0 million and \$0.1 million, respectively.

13. Marketable Equity Securities and Forward Contracts

TDS and its subsidiaries hold a substantial amount of marketable equity securities that are publicly traded and can have volatile movements in share prices. Any increase or decrease in the fair value of the underlying marketable equity securities is reflected in Accumulated other comprehensive income rather than as a non-operating gain or loss in the Consolidated Statements of Operations. TDS and its subsidiaries do not make direct investments in publicly traded companies and all of these interests were acquired as a result of sales, trades or reorganizations of other assets.

Information regarding TDS marketable equity securities is summarized as follows:

	September 30, 2007	December 31, 2006
	(Dollars in thousands)	
Marketable Equity Securities included in Current Assets		
Deutsche Telekom AG 85,969,689 and 45,492,172 Ordinary Shares, respectively	\$ 1,685,006	\$ 833,872
Vodafone Group Plc 2,362,976 and 11,327,674 American Depositary Receipts, respectively	85,776	314,683
Rural Cellular Corporation 719,396 equivalent Common Shares in 2007	31,294	
VeriSign, Inc. 2,361,333 Common Shares in 2006		56,789
Aggregate fair value included in Current Assets	1,802,076	1,205,344
Marketable Equity Securities included in Investments		
Deutsche Telekom AG 85,969,689 Ordinary Shares in 2006		1,575,824
Rural Cellular Corporation - 719,396 equivalent Common Shares in 2006		9,453
Other	10	9
Aggregate fair value included in Investments	10	1,585,286
Total aggregate fair value	1,802,086	2,790,630
Accounting cost basis	898,276	1,507,477
Gross holding gains	903,810	1,283,153
Gross realized holding gains		(29,729)
Gross unrealized holding gains	903,810	1,253,424
Equity method unrealized gains	387	352
Income tax expense	(331,653)	(488,817)
Minority share of unrealized holding gains	(1,932)	(14,981)
Unrealized holding gains, net of tax and minority share	570,612	749,978
Derivative instruments, net of tax and minority share	(152,273)	(215,122)
Retirement plans, net of tax	(12,498)	(12,743)
Amount included in Accumulated other comprehensive income	\$ 405,841	\$ 522,113

The investment in Deutsche Telekom AG (Deutsche Telekom) resulted from TDS disposition of its over 80%-owned personal communication services operating subsidiary, Aerial Communications, Inc., to VoiceStream Wireless Corporation (VoiceStream) in exchange for stock of VoiceStream, which was then acquired by Deutsche Telekom in exchange for Deutsche Telekom stock. The investment in Vodafone resulted from certain dispositions of non-strategic cellular investments to, or settlements with, AirTouch Communications Inc. (AirTouch), in exchange for stock of AirTouch, which was then acquired by Vodafone whereby TDS and its subsidiaries received American Depositary Receipts representing Vodafone stock. The investment in VeriSign, Inc. (VeriSign) resulted from the acquisition by VeriSign of Illuminet, Inc., a telecommunication entity in which several TDS subsidiaries held interests. The investment in Rural Cellular Corporation (Rural Cellular) resulted from a consolidation of several cellular partnerships in which TDS subsidiaries held interests in Rural Cellular, and the distribution of Rural Cellular stock in exchange for these interests.

TDS entered into a number of forward contracts related to the marketable equity securities it holds. The economic hedge risk management objective of the forward contracts is to hedge the value of the marketable equity securities from losses due to decreases in the market prices of the securities while retaining a share of gains from increases in the market prices of such securities. The downside risk is hedged at or above the accounting cost basis of the securities.

TDS delivered a substantial majority of the 45,492,172 Deutsche Telekom ordinary shares reflected in current assets as of December 31, 2006, in settlement of the forward contracts relating to such Deutsche Telekom ordinary shares, which matured in July through September 2007, and disposed of the remaining Deutsche Telekom ordinary shares related to such forward contracts. After these forward contracts were settled in July through September 2007, TDS now owns 85,969,689 Deutsche Telekom ordinary shares. TDS recorded a pre-tax gain of \$248.9 million in the third quarter of 2007 on the settlement of such forward contracts and the disposition of such remaining shares.

The forward contracts related to TDS 2,361,333 VeriSign Common Shares and the forward contracts related to U.S. Cellular's 8,964,698 Vodafone ADRs matured in May 2007. TDS elected to deliver a substantial majority of the 2,361,333 VeriSign Common Shares in settlement of the forward contracts, and to dispose of all remaining VeriSign Common Shares in connection therewith. U.S. Cellular elected to deliver a substantial majority of its 8,964,698 Vodafone ADRs in settlement of the forward contracts, and to dispose of all of its remaining Vodafone ADRs in connection therewith. As a result of the settlement of these forward contracts in May 2007, TDS no longer owns any VeriSign Common Shares, U.S. Cellular no longer owns any Vodafone ADRs and TDS and U.S. Cellular no longer have any liability or other obligations under the related forward contracts. TDS recorded a pre-tax gain of \$137.9 million in the second quarter of 2007 on the settlement of such forward contracts and the disposition of such remaining VeriSign Common Shares and such remaining U.S. Cellular-owned Vodafone ADRs.

See Note 17 Long-term Debt and Forward Contracts for additional information related to forward contracts.

TDS and its subsidiaries own 719,396 shares of Rural Cellular Corporation (RCCC). On July 30, 2007, RCCC announced that Verizon Wireless has agreed to purchase the outstanding shares of RCCC for \$45 per share in cash. The acquisition is expected to close in the first half of 2008. If the transaction closes, TDS will receive approximately \$32.4 million in cash, recognize a \$31.7 million pre-tax gain and cease to own any interest in RCCC.

14. Investments in Unconsolidated Entities

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

TDS and its subsidiaries' significant investments in unconsolidated entities include the following:

	September 30, 2007	September 30, 2006
Los Angeles SMSA Limited Partnership	5.5%	5.5%
Midwest Wireless Communications, L.L.C. (1)		14.2%
North Carolina RSA 1 Partnership	50.0%	50.0%
Oklahoma City SMSA Limited Partnership	14.6%	14.6%

(1) In addition, U.S. Cellular owns a 49% interest in an entity, which owned an interest of approximately 2.9% of Midwest Wireless Holdings, L.L.C., the parent company of Midwest Wireless Communications L.L.C. The entity's

investment in Midwest Wireless Holdings, L.L.C. was disposed of in the fourth quarter of 2006.

Based primarily on data furnished to TDS by third parties, the following table summarizes the combined results of operations of all wireless and wireline entities in which TDS investments are accounted for under the equity method:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
(Dollars in thousands)				
Results of operations				
Revenues	\$ 1,152,000	\$ 1,082,000	\$ 3,358,000	\$ 3,100,000
Operating expenses	793,000	744,000	2,260,000	2,135,000
Operating income	359,000	338,000	1,098,000	965,000
Other income (expense), net	7,000	10,000	22,000	32,000
Net Income	\$ 366,000	\$ 348,000	\$ 1,120,000	\$ 997,000

15. Revolving Credit Facilities

TDS has a \$600 million revolving credit facility available for general corporate purposes. At September 30, 2007, TDS had no outstanding notes payable and \$3.4 million letters of credit were outstanding, 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. At September 30, 2007, the contractual spread was 75 basis points. TDS may select borrowing periods of either seven days or one, two, three or six months (the one-month LIBOR was 5.12% at September 30, 2007). 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 7.75% at September 30, 2007). This credit facility expires in December 2009.

TDS also has \$75 million of direct bank lines of credit at September 30, 2007, all of which were unused. The terms of the direct lines of credit bear negotiated interest rates up to the prime rate (the prime rate was 7.75% at September 30, 2007).

U.S. Cellular has a \$700 million revolving credit facility available for general corporate purposes. At September 30, 2007, U.S. Cellular had no outstanding notes payable and \$0.2 million letters of credit were outstanding, leaving \$699.8 million available for use. Borrowings under the revolving credit facility bear interest at LIBOR plus a contractual spread based on U.S. Cellular s credit rating. At September 30, 2007, the contractual spread was 75 basis points. U.S. Cellular may select borrowing periods of either seven days or one, two, three or six months (the one-month LIBOR was 5.12% at September 30, 2007). 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 7.75% at September 30, 2007). This credit facility expires in December 2009.

TDS and U.S. Cellular s interest cost on their revolving credit facilities would increase if their current credit ratings from Moody s Investor Service (Moody s) were lowered. However, the credit facilities would not cease to be available or accelerate solely as a result of a decline in TDS or U.S. Cellular s credit rating. A downgrade in TDS or U.S. Cellular s credit rating could adversely affect their ability to renew existing, or obtain access to new credit facilities in the future. TDS and U.S. Cellular s credit ratings are as follows:

Moody s (Issued September 20, 2007)	Baa3	stable outlook
Standard & Poor s (Issued June 21, 2007)	BB+	with developing outlook
Fitch (Issued August 16, 2007)	BBB+	stable outlook

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On September 20, 2007, Moody's changed its outlook on TDS and U.S. Cellular's credit rating to stable from under review for possible further downgrade.

On August 16, 2007, Fitch changed its outlook on TDS and U.S. Cellular's credit rating to stable from ratings watch negative.

On February 13, 2007, Standard & Poor's lowered its credit ratings on TDS and U.S. Cellular to BBB- from BBB. The ratings remained on credit watch with negative implications. On April 23, 2007, Standard & Poor's lowered its credit rating on TDS and U.S. Cellular to BB+ from BBB-. The ratings remained on credit watch with negative implications. On June 21, 2007, Standard & Poor's affirmed the BB+ rating, and removed TDS and U.S. Cellular from Credit Watch. The outlook is developing.

The maturity dates of borrowings under TDS and U.S. Cellular's 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 represent certain matters at the time of each borrowing. On November 6, 2006, TDS and U.S. Cellular announced that they would restate certain financial statements which caused TDS and U.S. Cellular to be late with certain filings. In addition, on April 23, 2007, TDS announced another restatement that caused a further delay in TDS's SEC filings. Before TDS and U.S. Cellular filed the foregoing restatements and became current in their SEC filings on or prior to June 19, 2007, the restatements and late filings resulted in defaults under the revolving credit agreements and one line of credit agreement. TDS and U.S. Cellular were not in violation of any covenants that require TDS and U.S. Cellular to maintain certain financial ratios, and TDS and U.S. Cellular did not fail to make any scheduled payments under such credit agreements. TDS and U.S. Cellular received waivers from the lenders associated with the credit agreements, under which the lenders agreed to waive any defaults that may have occurred as a result of the restatements and late filings. TDS and U.S. Cellular believe they were in compliance as of September 30, 2007 with all covenants and other requirements set forth in the revolving credit facilities.

16. Asset Retirement Obligations

TDS accounts for its asset retirement obligations in accordance with FASB Statement of Financial Accounting Standard No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143) and FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), which require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. At the time the liability is incurred, TDS records a liability equal to the net present value of the estimated cost of the asset retirement obligation and increases the carrying amount of the related long-lived asset by an equal amount. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the obligations, any difference between the cost to retire an asset and the recorded liability (including accretion of discount) is recognized in the Consolidated Statement of Operations as a gain or loss.

TDS Telecom's incumbent local exchange carriers have recorded an asset retirement obligation in accordance with the requirements of SFAS 143 and FIN 47, and prior to the discontinuance of SFAS 71, a regulatory liability for the costs of removal that state public utility commissions required to be recorded for regulatory accounting purposes. The amounts recorded for regulatory accounting purposes were in addition to the amounts required to be recorded in accordance with SFAS 143 and FIN 47. As a result of the discontinuance of SFAS 71, the asset retirement obligation for incumbent local exchange carriers was reduced by \$70.1 million in the third quarter of 2007. See Note 8 - Extraordinary Item - Discontinuance of the Application of Statement of Financial Accounting Standard No. 71, *Accounting for the Effects of Certain Types of Regulation* for additional details.

During the third quarter of 2007, U.S. Cellular performed its annual review of the assumptions and estimated costs related to its asset retirement obligations. As a result of the review, the liabilities were revised to reflect lower estimated cash flows as a result of lower estimates of removal and restoration costs, primarily related to cell sites, as determined through quoted market prices obtained from independent contractors. These changes are reflected in Revisions in estimated cash flows below.

The table below also summarizes other changes in asset retirement obligations during the nine months ended September 30, 2007. TDS Telecom's incumbent local exchange carriers are designated as ILEC in the table and its competitive local exchange carrier is designated as CLEC.

	U.S. Cellular	TDS Telecom (Dollars in thousands)		TDS Consolidated
		ILEC	CLEC	
Beginning Balance December 31, 2006	\$ 127,639	\$ 101,647	\$ 3,026	\$ 232,312
Additional liabilities incurred	4,194	9,888		14,082
Revision in estimated cash flows	(15,331)			(15,331)
Acquisition of assets	348			348
Disposition of assets	(493)	(352)		(845)
Accretion expense	7,109	28	158	7,295
Discontinuance of SFAS 71		(70,107)		(70,107)
Ending Balance September 30, 2007	\$ 123,466	\$ 41,104	\$ 3,184	\$ 167,754

17. Long-Term Debt and Forward Contracts

TDS' long-term debt does not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in TDS' credit rating. However, a downgrade in TDS' credit rating could adversely affect TDS' ability to obtain long-term debt financing in the future. TDS believes it was in compliance as of September 30, 2007 with all covenants and other requirements set forth in its long-term debt indenture.

TDS redeemed \$35.0 million of medium-term notes in January and February of 2006 which carried an interest rate of 10.0%.

TDS repaid \$200.0 million plus accrued interest on its 7% unsecured senior notes on August 1, 2006, using cash on-hand.

Forward Contracts

TDS and its subsidiaries maintain a portfolio of available-for-sale marketable equity securities, the majority of which are the result of sales or trades of non-strategic assets. Subsidiaries of TDS have prepaid forward contracts with counterparties in connection with its Deutsche Telekom and Vodafone marketable equity securities and until May 2007 TDS had such contracts in connection with its VeriSign marketable equity securities and U.S. Cellular had such contracts in connection with its Vodafone marketable equity securities. The principal amount of the prepaid forward contracts was accounted for as a loan. The collar portions of the forward contracts are accounted for as derivative instruments. The prepaid forward contracts contain embedded collars that are bifurcated and receive separate accounting treatment in accordance with FASB Statement of Financial Accounting Standards No. 133, *Accounting for Derivatives and Hedging Activities*.

A portion of the Deutsche Telekom forward contracts matured in the third quarter of 2007. The remaining Deutsche Telekom forward contracts mature from October 2007 to September 2008. A majority of the contracts require quarterly interest payments at the LIBOR rate plus 50 basis

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points (the three-month LIBOR rate was 5.23% at September 30, 2007). The remaining contracts are structured as zero coupon obligations with a weighted average effective interest rate of 4.4% per year. No interest payments are required for the zero coupon obligations during the contract period.

U.S. Cellular's Vodafone forward contracts matured in May 2007 and TDS Telecom's Vodafone contracts mature in October 2007. The Vodafone forward contracts require quarterly interest payments at the LIBOR rate plus 50 basis points (the three-month LIBOR rate was 5.23% at September 30, 2007).

The VeriSign forward contract matured in May 2007 and was structured as a zero coupon obligation with an effective interest rate of 5.00% per year. TDS was not required to make interest payments during the contract period.

The economic hedge risk management objective of the forward contracts is to hedge the value of the marketable equity securities from losses due to decreases in the market prices of the securities (downside limit) while retaining a share of gains from increases in the market prices of such securities (upside potential). The downside limit is hedged at or above the accounting cost basis of the securities.

Under the terms of the remaining forward contracts related to Deutsche Telekom and Vodafone marketable equity securities, subsidiaries of TDS will continue to own the contracted shares and will receive dividends paid on such contracted shares, if any. The forward contracts, at TDS option, may be settled in shares of the respective security or in cash, pursuant to formulas that collar the price of the shares. The collars effectively reduce downside risk and upside potential on the contracted shares. The collars are typically contractually adjusted for any changes in dividends on the underlying shares. If the dividend increases, the collar's upside potential is typically reduced. If the dividend decreases, the collar's upside potential is typically increased. If TDS elects to settle in shares, it will be required to deliver the number of shares of the contracted security determined pursuant to the formula. If shares are delivered in the settlement of the forward contract, TDS would incur a current tax liability at the time of delivery. If TDS elects to settle in cash, it will be required to pay an amount in cash equal to the fair market value of the number of shares determined pursuant to the formula. TDS provides and U.S. Cellular provided guarantees to the counterparties which provide assurance that all principal and interest amounts will be paid by its consolidated subsidiaries upon settlement of the contracts.

A portion of the forward contracts related to the Deutsche Telekom ordinary shares held by TDS matured in July through September 2007. The loan amounts associated with the forward contracts were \$516.9 million. TDS elected to deliver a substantial majority of the 45,492,172 Deutsche Telekom ordinary shares in settlement of the forward contracts maturing in July through September 2007, and to dispose of the remaining Deutsche Telekom ordinary shares related to such forward contracts. TDS recognized a pre-tax gain of \$248.9 million at the time of the delivery of the Deutsche Telekom ordinary shares. Since shares were delivered in the settlement of the forward contract, TDS incurred a current tax liability in the amount of \$176.5 million at the time of the delivery. After these forward contracts were settled in July through September 2007, TDS owns 85,969,689 of the Deutsche Telekom ordinary shares and has a derivative liability of \$516.6 million under the related forward contract. TDS will determine whether to settle the remaining forward contracts in shares or in cash at a time closer to the maturity dates.

The forward contracts related to the VeriSign common shares held by TDS and the Vodafone ADRs held by U.S. Cellular matured in May 2007. The loan amounts associated with the forward contracts related to the VeriSign common shares held by TDS and the Vodafone ADRs held by U.S. Cellular were \$20.8 million and \$159.9 million, respectively. TDS elected to deliver a substantial majority of the 2,361,333 VeriSign common shares in settlement of the forward contracts, and to dispose of all of its remaining VeriSign common shares in connection therewith. U.S. Cellular elected to deliver a substantial majority of its 8,964,698 Vodafone ADRs in settlement of the forward contracts, and to dispose of all of its remaining Vodafone ADRs in connection therewith. TDS recognized a pre-tax gain of \$137.9 million at the time of the delivery of the VeriSign common shares and Vodafone ADRs. Since shares were delivered in the settlement of the forward contracts, TDS incurred a current tax liability in the amount of \$43.4 million at the time of the delivery. After these forward contracts were settled in May 2007, TDS no longer owns any VeriSign common shares, U.S. Cellular no longer owns any Vodafone ADRs and TDS and U.S. Cellular no longer have any liability or other obligations under these forward contracts.

The following table details the outstanding forward contracts, related marketable equity securities, and maturity dates of the contracts as of September 30, 2007, all of which relate to TDS:

Marketable Equity Security	Shares	Loan Amounts (Dollars in thousands)	Maturity Date
Vodafone Group Plc	2,362,976	\$ 41,183	Fourth Quarter 2007
Deutsche Telekom AG	30,000,000	340,963	First Quarter 2008
Deutsche Telekom AG	38,000,000	452,104	Second Quarter 2008
Unamortized Discount		(6,094)	
		446,010	
Deutsche Telekom AG	17,969,689	222,298	Third Quarter 2008
Unamortized Discount		(8,387)	
		213,911	
		\$ 1,042,067	

TDS is, and until May 2007 (when U.S. Cellular settled its forward contracts as discussed above) U.S. Cellular was, required to comply with certain covenants under the forward contracts. On November 6, 2005, TDS and U.S. Cellular announced that they would restate certain financial statements which caused TDS and U.S. Cellular to be late with certain SEC filings. In addition, on April 23, 2007, TDS announced another restatement that caused a further delay in TDS SEC filings. Before TDS and U.S. Cellular filed the foregoing restatements and became current in their SEC filings on or prior to June 19, 2007, the restatements and late filings resulted in defaults under the forward contracts. TDS and U.S. Cellular were not in violation of any covenants that require TDS and U.S. Cellular to maintain certain financial ratios, and TDS and U.S. Cellular did not fail to make any scheduled payments under such forward contracts. TDS and U.S. Cellular received waivers from the counterparty associated with the forward contracts, under which the lenders agreed to waive any defaults that may have occurred as a result of the restatements and late filings. TDS believes that it was in compliance as of September 30, 2007 with all covenants and other requirements set forth in its forward contracts.

18. Commitments and Contingencies

Indemnity Agreements

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 any 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.

TDS is party to an indemnity agreement with T-Mobile USA Inc. (T-Mobile) regarding certain contingent liabilities at Aerial Communications, Inc. (Aerial) for the period prior to Aerial s merger into VoiceStream Wireless. As of September 30, 2007, TDS has recorded liabilities of \$0.9 million relating to this indemnity, which represents its best estimate of its probable liability.

Legal Proceedings

TDS is involved or may be involved from time to time in legal proceedings before the FCC, other regulatory authorities, and various state and federal courts. In accordance with FASB Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*, 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.

Regulatory Environment

Changes in the telecommunications regulatory environment, including the effects of potential changes in the rules governing universal service funding and potential changes in the amounts or methods of intercarrier compensation, could have a material adverse effect on TDS Telecom's financial condition, results of operations and cash flows.

19. Minority Interest in Subsidiaries

Under FASB Statement of Financial Accounting Standards 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's 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 (L.L.C.s), where the terms of the underlying partnership or L.L.C. 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 L.L.C. agreements. The termination dates of TDS's mandatorily redeemable minority interests range from 2042 to 2105.

The settlement value of TDS's mandatorily redeemable minority interests is estimated to be \$214.5 million at September 30, 2007. This represents the estimated amount of cash that would be due and payable to settle minority interests assuming an orderly liquidation of the finite-lived consolidated partnerships and L.L.C.s on September 30, 2007, net of estimated liquidation costs. This amount is being disclosed pursuant to the requirements of FASB Staff Position (FSP) No. FAS 150-3; TDS has no current plans or intentions to liquidate any of the related partnerships or L.L.C.s prior to their scheduled termination dates. The corresponding carrying value of the minority interests in finite-lived consolidated

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partnerships and L.L.C.s at September 30, 2007 is \$37.5 million, and is included in the Balance Sheet caption Minority interest in subsidiaries. The excess of the aggregate settlement value over the aggregate carrying value of the mandatorily redeemable minority interests of \$177.0 million is primarily due to the unrecognized appreciation of the minority interest holders' share of the underlying net assets in the consolidated partnerships and L.L.C.s. 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.

20. Common Share Repurchase Programs

On March 2, 2007, the Board of Directors of TDS 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. The authorization will expire March 2, 2010. As of September 30, 2007, TDS repurchased 1,483,193 Special Common Shares for \$89.1 million, or an average of \$60.03 per share pursuant to this authorization. TDS did not repurchase any common shares in 2006.

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 on a quarterly basis, primarily for use in employee benefit plans (the Limited Authorization). This authorization does not have an expiration date.

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 (the Additional Authorization) from time to time through open market purchases, block transactions, private transactions or other methods. This authorization was in addition to U.S. Cellular's existing Limited Authorization discussed above, and was scheduled to expire on March 6, 2010. However, as discussed below, because this authorization was fully utilized, no further purchases are available under this authorization.

U.S. Cellular has entered into accelerated share repurchase (ASR) agreements to purchase its shares through an investment banking firm in private transactions. The repurchased shares are being held as treasury shares. In connection with each ASR, the investment banking firm will purchase an equivalent number of shares in the open-market over time. Each program must be completed within two years of the trade date of the respective ASR. At the end of each program, U.S. Cellular will receive or pay a price adjustment based on the average price of shares acquired by the investment banking firm pursuant to the ASR during the purchase period, less a negotiated discount. The purchase price adjustment can be settled, at U.S. Cellular's option, in cash or in U.S. Cellular Common Shares. The subsequent purchase price adjustment will change the cost basis of the U.S. Cellular treasury shares.

Activity related to U.S. Cellular's repurchases of shares through ASR transactions on April 4 and July 10, 2007 and its obligations and potential obligations to the investment banking firm, are detailed in the table below.

(dollars in thousands, except per share amounts)	April 4, 2007	July 10, 2007	Totals
Number of Shares Repurchased by U.S. Cellular (1)	670,000	168,000	838,000
Weighted average price (2)	\$ 73.22	\$ 96.10	
Initial purchase price to investment banking firm	\$ 49,057	\$ 16,145	\$ 65,202
Number of Shares Purchased by Investment Banking Firm (As of September 30, 2007)			
	181,970		181,970
Average price of shares, net of discount, purchased by Investment banking firm	\$ 78.51		
Additional amount due to investment banking firm for shares purchased through September 30, 2007 (3)	\$ 967		\$ 967
Equivalent number of shares based on September 30, 2007 closing price (4)	9,847		9,847
	488,030	168,000	656,030

**Remaining Shares to be Purchased by Investment Banking Firm
under ASR**

Potential additional cost of remaining shares to be purchased(5)	\$	11,898	\$	202	\$	12,100
Potential additional shares to settle ASR based on September 30, 2007 closing price (6)		121,163		2,053		123,216

Total Potential Additional Cost to Settle ASR, Based on September 30, 2007 Closing Price

If settled in cash	\$	12,865	\$	202	\$	13,067
If settled in shares		131,010		2,053		133,063

- (1) The repurchased shares are being held as treasury shares.
- (2) Weighted average price includes any per share discount and commission paid to the investment banking firm.

(3) Represents the purchase price adjustment owed by U.S. Cellular to the investment banking firm as of September 30, 2007 for the shares purchased through such date, based on the difference between the price paid per share by U.S. Cellular in connection with the ASR, and the average price paid per share by the investment banking firm.

(4) Represents the number of additional U.S. Cellular Common Shares that would need to be delivered to the investment banking firm based on the closing price of \$98.20 on September 30, 2007, if U.S. Cellular settled the additional amount due described in footnote (3) with shares.

(5) Represents the additional purchase price adjustment that would be potentially owed by U.S. Cellular to the investment banking firm as of September 30, 2007 based on the difference between the initial price paid per share by U.S. Cellular in connection with the ASR, and the closing price of U.S. Cellular Common Shares on September 30, 2007.

(6) Represents the number of additional U.S. Cellular Common Shares that would need to be delivered to the investment banking firm based on the closing price of \$98.20 on September 30, 2007, if U.S. Cellular settled the potential additional amount due described in footnote (5) with shares.

At September 30, 2007, there were 656,030 shares remaining to be purchased by the investment banking firm pursuant to the ASRs. Thus, the amounts owed and potentially owed by U.S. Cellular to the investment banking firm as shown in the table above would increase or decrease by \$656,030 for each \$1 increase or decrease in the U.S. Cellular stock price of \$98.20 as of September 30, 2007. Any amount owed will be settled at the conclusion of each program.

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. In addition, the subsequent ASR purchase price adjustment may result in additional amounts being allocated to licenses, goodwill and customer lists at TDS.

21. Accumulated Other Comprehensive Income

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

	Nine Months Ended September 30,	
	2007	2006
	(Dollars in thousands)	
Marketable Equity Securities		
Balance, beginning of period	\$ 749,978	\$ 578,273
Add (deduct):		
Unrealized gains (losses) on marketable equity securities	150,512	(87,605)
Income tax (expense) benefit	(56,091)	34,923
	94,421	(52,682)
Unrealized gain (loss) of equity method companies	35	(190)
Minority share of unrealized (gains) losses	(2,536)	(1,445)
Net change in unrealized gains (losses) on marketable equity securities	91,920	(54,317)
Recognized gain on sale of marketable equity securities	(500,126)	
Income tax expense	182,948	
	(317,178)	
Minority share of income	15,586	
Net recognized gain on sale of marketable equity securities	(301,592)	
Net change in marketable equity securities	(209,672)	(54,317)
Application of FIN 48	30,306	
Balance, end of period	\$ 570,612	\$ 523,956
Derivative Instruments		
Balance, beginning of period	\$ (215,122)	\$ (214,632)
Add (deduct):		
Minority share of unrealized gains		(3)
Net change in unrealized losses on derivative instruments		(3)
Recognized gain on settlement of derivative instruments	113,346	
Income tax expense	(41,463)	
	71,883	
Minority share of income	549	
Net recognized gain on settlement of derivatives	72,432	
Net change in derivative instruments	72,432	(3)
Application of FIN 48	(9,583)	
Balance, end of period	\$ (152,273)	\$ (214,635)
Retirement Plans		
Balance, beginning of period	\$ (12,743)	\$
Add (deduct):		
Amounts included in net periodic benefit cost for the period		
Amortization of prior service cost, net of taxes	(381)	
Amortization of unrecognized net loss, net of taxes	626	
Net change in retirement plans included in comprehensive income	245	
Balance, end of year	\$ (12,498)	\$
Accumulated Other Comprehensive Income		
Balance, beginning of period	\$ 522,113	\$ 363,641

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Net change in marketable equity securities	(209,672)	(54,317)
Net change in derivative instruments	72,432	(3)
Net change in retirement plans	245	
Net change included in comprehensive income	(136,995)	(54,320)
Application of FIN 48	20,723	
Balance, end of period	\$ 405,841	\$ 309,321

	Nine Months Ended September 30,	
	2007	2006
(Dollars in thousands)		
Comprehensive Income		
Net income	\$ 442,435	\$ 277,995
Net change in unrealized losses included in comprehensive income	(136,995)	(54,320)
	\$ 305,440	\$ 223,675

22. Stock-Based Compensation

Stock-based compensation expense recorded for the three and nine months ended September 30, 2007, was \$12.1 million and \$22.9 million, respectively. Stock-based compensation expense recorded for the three and nine months ended September 30, 2006, was \$13.0 million and \$27.7 million, respectively. Stock-based compensation expense is primarily recorded in Selling, general and administrative expense.

At September 30, 2007, TDS unrecognized compensation cost for all stock-based compensation awards was \$29.4 million. The unrecognized compensation cost for stock-based compensation awards at September 30, 2007 is expected to be recognized over a weighted average period of 0.8 years.

TDS

The information in this section relates to stock-based compensation plans utilizing the equity instruments of TDS. Participants in these plans are generally employees of TDS Corporate and TDS Telecom, although U.S. Cellular employees are eligible to participate in the TDS Employee Stock Purchase Plan. Information related to plans utilizing the equity instruments of U.S. Cellular are shown in the following U.S. Cellular section.

Effective January 1, 2006, TDS adopted the fair value recognition provisions of FASB Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS 123(R)), using the modified prospective transition method. Upon adoption of SFAS 123(R), TDS elected to continue to value its share-based payment transactions using the Black-Scholes valuation model, which was previously used by TDS for purposes of preparing the pro forma disclosures under SFAS 123.

Under the TDS 2004 Long-Term Incentive Plan (and a predecessor plan), TDS may grant fixed and performance-based incentive and non-qualified stock options, restricted stock, restricted stock units, and deferred compensation stock unit awards to key employees. TDS has reserved 2,150,000 Common Shares and 9,584,000 Special Common Shares at September 30, 2007, for equity awards granted and to be granted under this plan. At September 30, 2007, the only types of awards outstanding are fixed non-qualified stock option awards, restricted stock unit awards, and deferred compensation stock unit awards. As of September 30, 2007 TDS has also reserved 308,000 Special Common Shares under an employee stock purchase plan. The maximum number of TDS Common Shares and TDS Special Common Shares that may be issued to employees under all stock-based compensation plans in effect at September 30, 2007 was 2,150,000 and 9,892,000 shares, respectively. TDS has also created a Non-Employee Directors Plan under which it has reserved 66,000 Special Common Shares of TDS stock for issuance as compensation to members of the board of directors who are not employees of TDS. TDS currently utilizes treasury stock to satisfy stock option exercises, issuances under its employee stock purchase plan, restricted stock unit awards and deferred compensation stock unit awards.

Stock Options Non qualified stock options granted to key employees are exercisable over a specified period not in excess of ten years. Stock options generally vest over periods up to four years from the date of grant. Stock options outstanding at September 30, 2007 expire between 2007 and 2017. TDS estimates the fair value of stock options granted using the Black-Scholes valuation model. TDS granted 873,000 stock options during the three and nine months ended September 30, 2007. TDS granted 1,105,000 stock options during the three and nine months ended September 30, 2006. TDS used the assumptions shown in the table below in valuing the options granted in 2007.

Expected Life	4.0 years
Expected Annual Volatility Rate	19.5%
Dividend Yield	0.7%
Risk Free Interest Rate	4.7%
Estimated Annual Forfeiture Rate	1.0%

A summary of TDS stock options outstanding and exercisable as of September 30, 2007 and changes during the nine months ended September 30, 2007 is presented below:

Tandem Options (1)

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2006 (2,193,000 exercisable)	2,254,000	\$ 76.59	5.4	\$ 118,075,000
		76.89	5.3	114,208,000
Granted				
Exercised	1,101,000	75.85		51,021,000
Forfeited	1,000	65.96		47,000
Expired	11,000	77.85		577,000
Outstanding at September 30, 2007 (1,141,000 exercisable)	1,141,000	77.20	4.7	58,815,000
		\$ 77.20	4.7	\$ 58,815,000

Special Common Options

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2006 (1,400,000 exercisable)	1,402,000	\$ 40.15	9.6	\$ 30,635,000
		40.15	9.6	30,578,000
Granted	873,000	59.45		2,226,000
Exercised	773,000	38.63		15,407,000
Forfeited	1,000	59.45		2,000
Expired				
Outstanding at September 30, 2007 (628,000 exercisable)	1,501,000	52.14	9.4	14,795,000
		\$ 42.01	8.9	\$ 12,556,000

(1) Upon exercise, each tandem option is converted into one TDS Common Share and one TDS Special Common Share. All TDS tandem stock options outstanding were granted prior to the distribution of the TDS Special Common

Share Dividend in 2005.

The aggregate intrinsic value represents the total pretax intrinsic value (the difference between TDS closing stock price on the last trading day of the period and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2007. This amount will change in future periods based on the market price of TDS stock.

Restricted Stock Units Beginning in April 2005, TDS granted restricted stock unit awards to key employees. These awards generally vest in 30-32 months. TDS estimates the fair value of restricted stock units based on the closing market price of TDS shares on the date of grant.

A summary of TDS nonvested restricted stock units at September 30, 2007 and changes during the nine months then ended is presented in the tables that follow:

Tandem Restricted Stock Units

	Number of Restricted Stock Units		Weighted Average Grant-Date Fair Values of Restricted Stock Units
Nonvested at December 31, 2006	80,000	\$	77.57
Granted			
Vested	8,000		77.36
Forfeited	2,000		77.49
Nonvested at September 30, 2007	70,000	\$	77.59

Special Common Restricted Stock Units

	Number of Restricted Stock Units		Weighted Average Grant-Date Fair Values of Restricted Stock Units
Nonvested at December 31, 2006	125,000	\$	40.04
Granted	93,000		59.45
Vested	19,000		38.12
Forfeited	4,000		39.45
Nonvested at September 30, 2007	195,000	\$	49.56

Deferred Compensation Stock Units Certain TDS employees may elect to defer receipt of all or a portion of their annual bonuses and to receive stock unit matches on the amount deferred up to \$400,000 per bonus. TDS match amounts depend on the amount of annual bonus that is deferred into stock units. The matched stock units vest ratably at a rate of one-third per year over three years. TDS estimates the fair value of deferred compensation matching stock units based on the closing market price of TDS shares on the date of grant. A summary of TDS deferred compensation stock units at September 30, 2007 and changes during the year is presented in the tables that follow:

Tandem Deferred Compensation Stock Units

	Number of Tandem Stock Units(1)		Weighted Average Grant-Date Fair Values of Stock Units
Nonvested at December 31, 2006	295	\$	81.53
Granted			
Vested	60		76.84
Forfeited			
Nonvested at September 30, 2007	235	\$	82.71

(1) Upon exercise, each tandem deferred compensation stock unit outstanding at September 30, 2007 is converted into one TDS Common Share and one TDS Special Common Share.

Special Common Deferred Compensation Stock Units

	Number of Special Common Stock Units(2)		Weighted Average Grant-Date Fair Values of Stock Units
Nonvested at December 31, 2006	1,400	\$	41.37
Granted	1,700		52.58
Vested			
Forfeited			
Nonvested at September 30, 2007	3,100	\$	47.52

(2) Upon exercise, each Special Common deferred compensation stock unit is converted into one TDS Special Common Share.

Employee Stock Purchase Plan Under the 2003 Employee Stock Purchase Plan, eligible employees of TDS and its subsidiaries may purchase a limited number of shares of TDS Special Common Shares on a quarterly basis. The per share cost to each participant is 85% of the market value of the Special Common Shares as of the issuance date. TDS issued 5,400 and 0 shares during the nine months ended September 30, 2007 and 2006, respectively.

U.S. Cellular

Effective January 1, 2006, U.S. Cellular adopted the fair value recognition provisions of FASB Statement of Financial Accounting Standard No. 123(R), *Share-Based Payment* (SFAS 123(R)), using the modified prospective transition method. Upon adoption of SFAS 123(R), U.S. Cellular elected to continue to value its share-based payment transactions using the Black-Scholes valuation model, which was previously used by U.S. Cellular for purposes of preparing the pro forma disclosures under SFAS 123.

U.S. Cellular has established the following stock-based compensation plans: a long-term incentive plan, an employee stock purchase plan and a non-employee director compensation plan.

Under the U.S. Cellular 2005 Long-Term Incentive Plan, U.S. Cellular may grant fixed and performance-based incentive and non-qualified stock options, restricted stock, restricted stock units and deferred compensation stock unit awards to key employees. At September 30, 2007, the only types of awards outstanding are fixed non-qualified stock option awards, restricted stock unit awards and deferred compensation stock unit awards.

At September 30, 2007, U.S. Cellular had reserved 4,067,000 Common Shares for equity awards granted and to be granted under the long-term incentive plan, and also had reserved 101,000 Common Shares for issuance to employees under an employee stock purchase plan. The maximum number of U.S. Cellular Common Shares that may be issued to employees under all stock-based compensation plans in effect at September 30, 2007 was 4,168,000 shares. U.S. Cellular currently utilizes treasury stock to satisfy stock option exercises, issuances under its employee stock purchase plan, restricted stock unit awards and deferred compensation stock unit awards.

Long-Term Incentive Plan Stock Options Non-qualified stock options granted to key employees are exercisable over a specified period not in excess of ten years. Stock options generally vest over periods up to four years from the date of grant. Stock options outstanding at September 30, 2007 expire between 2007 and 2017. U.S. Cellular granted 6,000 and 476,000 stock options during the three and nine months ended September 30, 2007 and 551,000 stock options during the nine months ended September 30, 2006. No stock options were granted during the three months ended September 30, 2006. U.S. Cellular used the assumptions shown in the table below in valuing options granted in 2007.

Expected Life	3.1 years
Expected Annual Volatility Rate	22.5%-25.7%
Dividend Yield	
Risk Free Interest Rate	4.0%-4.8%
Estimated Annual Forfeiture Rate	9.6%

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A summary of U.S. Cellular stock options outstanding and exercisable as of September 30, 2007 and changes during the nine months ended September 30, 2007 is presented below.

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2006 (1,430,000 exercisable)	2,571,000	\$ 44.07	7.2	\$ 139,206,000 80,178,000
Granted	476,000	74.24		11,399,000
Exercised	1,316,000	42.38		49,537,000
Forfeited	94,000	55.18		4,065,000
Expired	4,000	34.09		225,000
Outstanding at September 30, 2007 (627,000 exercisable)	1,633,000	53.60 40.32	7.7 6.3	\$ 72,818,000 36,310,000

The aggregate intrinsic value represents the total pretax intrinsic value (the difference between U.S. Cellular's closing stock price on the last trading day of the period and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2007. This amount will change in future periods based on the market price of U.S. Cellular's stock.

Long-Term Incentive Plan **Restricted Stock Units** U.S. Cellular grants restricted stock unit awards, which generally vest after three years, to key employees. U.S. Cellular estimates the fair value of restricted stock units based on the closing market price of U.S. Cellular shares on the date of grant. U.S. Cellular granted 137,000 and 128,000 restricted stock units during the nine months ended September 30, 2007 and 2006, respectively.

A summary of U.S. Cellular nonvested restricted stock units at September 30, 2007 and changes during the nine months then ended is presented in the tables that follow:

Liability Classified Awards

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Values of Restricted Stock Units
Nonvested at December 31, 2006	57,000	\$ 38.65
Granted		
Vested	57,000	38.65
Forfeited		
Nonvested at September 30, 2007		\$

Equity Classified Awards

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Values of Restricted Stock Units
Nonvested at December 31, 2006	288,000	\$ 51.40
Granted	137,000	74.09
Vested		
Forfeited	35,000	54.96
Nonvested at September 30, 2007	390,000	\$ 59.09

Long-Term Incentive Plan **Deferred Compensation Stock Units** Certain U.S. Cellular employees may elect to defer receipt of all or a portion of their annual bonuses and to receive a company matching contribution on the amount deferred. All bonus compensation that is deferred by employees electing to participate is immediately vested and is deemed to be invested in U.S. Cellular Common Share stock units. The matching contributions also are deemed to be invested in U.S. Cellular Common Share stock units, with the number of such units determined based on the dollar amount of the matching contribution and the closing market price of U.S. Cellular Common Shares on the date of match.

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A summary of U.S. Cellular nonvested deferred compensation stock units at September 30, 2007 and changes during the nine months then ended is presented in the table below:

	Number of Stock Units		Weighted Average Grant-Date Fair Values of Stock Options
Nonvested at December 31, 2006	2,400	\$	51.39
Granted	2,600		70.55
Vested			
Forfeited			
Nonvested at September 30, 2007	5,000	\$	61.35

Employee Stock Purchase Plan Under the 2003 Employee Stock Purchase Plan, eligible employees of U.S. Cellular and its subsidiaries may purchase a limited number of U.S. Cellular Common Shares on a quarterly basis. The per share cost to each participant is 85% of the market value of the Common Shares as of the issuance date. U.S. Cellular employees are also eligible to participate in the TDS employee stock purchase plan. The per share costs in the TDS plan are the same as those for the U.S. Cellular plan. U.S. Cellular issued 5,400 shares during the nine months ended September 30, 2007. No shares were issued during the nine months ended September 30, 2006.

Non-Employee Director Compensation Plan - Under the Non-Employee Director Compensation Plan, U.S. Cellular has reserved 3,100 Common Shares of U.S. Cellular for issuance as compensation to members of the board of directors who are not employees of U.S. Cellular or TDS. U.S. Cellular issued 700 shares during the nine months ended September 30, 2007 and 40 shares during the nine months ended September 30, 2006.

During the three and nine months ended September 30, 2007 and 2006, U.S. Cellular recognized stock-based compensation costs of \$3.2 million and \$11.4 million and \$5.7 million and \$16.1 million, respectively. At September 30, 2007, unrecognized compensation cost for all U.S. Cellular stock-based compensation awards was \$17.0 million. The unrecognized compensation cost for stock-based compensation awards at September 30, 2007 is expected to be recognized over a weighted average period of one year.

23. Business Segment Information

Financial data for TDS business segments for the three and nine month periods ended or at September 30, 2007 and 2006 are as follows. TDS Telecom's incumbent local exchange carriers are designated as ILEC in the table and its competitive local exchange carrier is designated as CLEC.

As of and for the Three Months Ended September 30, 2007

	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	\$ 11,281	\$ (6,442)	\$ 1,236,885
Cost of services and products	350,141	49,069	29,252	9,783	(1,615)	436,630
Selling, general and administrative expense	414,978	43,703	19,679	176	(4,465)	474,071
Operating income before depreciation, amortization and accretion (3)	250,715	64,468	10,041	1,322	(362)	326,184
Depreciation, amortization and accretion expense	149,776	32,641	5,833	703	2,742	191,695
Operating income (loss)	100,939	31,827	4,208	619	(3,104)	134,489
Other items:						
Equity in earnings of unconsolidated entities	23,782				41	23,823
Fair value adjustment of derivative instruments					(54,824)	(54,824)
Gain on sale of investments					248,860	248,860
Marketable equity securities	16,133				1,785,953	1,802,086
Investment 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	\$ 1,139	\$ 735	\$ 159,366

As of and for the Three Months Ended September 30, 2006

	U.S. Cellular	TDS Telecom ILEC	CLEC	Non- Reportable Segment(1)	Other Reconciling Items(2)	Total
	(Dollars in thousands)					
Operating revenues	\$ 888,523	\$ 162,242	\$ 59,370	\$ 7,434	\$ (5,499)	\$ 1,112,070
Cost of services and products	305,864	48,275	31,662	5,463	(1,082)	390,182
Selling, general and administrative expense	358,392	46,251	21,855	1,321	(3,585)	424,234
	224,267	67,716	5,853	650	(832)	297,654

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Operating income before
depreciation, amortization
and accretion (3)

Depreciation, amortization and accretion expense	146,940	33,757	5,871	711		187,279
Operating income (loss)	77,327	33,959	(18)	(61)	(832)	110,375
Other items:						
Equity in earnings of unconsolidated entities	23,483				597	24,080
Fair value adjustment of derivative instruments	(21,285)				55,904	34,619
Marketable equity securities	208,505				2,195,316	2,403,821
Investment in unconsolidated entities	197,817	3,623			42,409	243,849
Total assets	5,573,507	1,692,675	144,684	23,834	2,895,749	10,330,449
Capital expenditures	\$ 152,771	\$ 26,986	\$ 4,552	\$ 838	\$ 1,169	\$ 186,316

As of and for the Nine Months Ended September 30, 2007

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