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

x 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

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

For the transition period from to

Commission File Number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-2669023**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

30 North LaSalle Street, Chicago, Illinois 60602

(Address of principal executive offices) (Zip Code)

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

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

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 x Accelerated filer o Non-accelerated filer o

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

Yes o No x

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

Class	Outstanding at 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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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, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 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

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 FLOWS

UNAUDITED

	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

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 SHEETS

ASSETS

UNAUDITED

	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 SHEETS

LIABILITIES AND STOCKHOLDERS EQUITY

UNAUDITED

	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

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.

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.

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.

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 Discontinuation of the Application of FASB Statement No. 71*. The components of the non-cash extraordinary gain are as follows:

	Before Tax Effects	After Tax Effects
	(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.

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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				