TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-Q
June 19, 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 March 31, 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 April 30, 2007**
Common Shares, $.01 par value	51,937,620 Shares
Special Common Shares, $.01 par value	58,402,073 Shares
Series A Common Shares, $.01 par value	6,444,364 Shares

Telephone and Data Systems, Inc. and Subsidiaries

Quarterly Report on Form 10-Q
For the Period Ended March 31, 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 March 31, 2007	2006
	(Dollars in thousands, except per share amounts)	
Operating Revenues	$ 1,156,557	$ 1,059,077
Operating Expenses		
Cost of services and products (exclusive of depreciation, amortization and accretion expense shown below)	405,968	376,306
Selling, general and administrative expense	416,482	392,621
Depreciation, amortization and accretion expense	191,310	182,966
Total Operating Expenses	1,013,760	951,893
Operating Income	142,797	107,184
Investment and Other Income (Expense)		
Equity in earnings of unconsolidated entities	23,696	19,805
Interest and dividend income	16,196	11,483
Interest expense	(57,801)	(58,532)
Fair value adjustment of derivative instruments	255,870	30
Other expense	(2,224)	(927)
Total Investment and Other Income (Expense)	235,737	(28,141)
Income Before Income Taxes and Minority Interest	378,534	79,043
Income tax expense	141,238	32,342
Income Before Minority Interest	237,296	46,701
Minority share of income	(17,971)	(10,704)
Net Income	219,325	35,997
Preferred dividend requirement	(13)	(51)
Net Income Available To Common	$ 219,312	$ 35,946
Basic Weighted Average Shares Outstanding (000s)	116,837	115,741
Basic Earnings Per Share (Note 6)	$ 1.88	$ 0.31
Diluted Weighted Average Shares Outstanding (000s)	118,383	116,327
Diluted Earnings Per Share (Note 6)	$ 1.85	$ 0.31
Dividends Per Share	$ 0.0975	$ 0.0925

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

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Telephone and Data Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Unaudited

	Three Months Ended March 31, 2007	2006
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$ 219,325	$ 35,997
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	191,310	182,966
Bad debts expense	12,255	9,075
Stock-based compensation expense	4,651	8,638
Fair value adjustment of derivative instruments	(255,870)	(30)
Deferred income taxes	81,841	(15,228)
Equity earnings of unconsolidated entities	(23,696)	(19,805)
Distributions from unconsolidated entities	2,321	5,676
Minority share of income	17,971	10,704
Noncash interest expense	5,378	5,480
Other noncash expense	336	1,504
Changes in assets and liabilities		
Change in accounts receivable	20,262	9,164
Change in materials and supplies	15,698	7,546
Change in accounts payable	(27,048)	(53,405)
Change in customer deposits and deferred revenues	12,648	5,209
Change in accrued taxes	54,241	47,703
Change in accrued interest	5,403	4,567
Change in other assets and liabilities	(49,901)	(32,525)
	287,125	213,236
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(130,966)	(143,776)
Cash paid for acquisitions	(18,237)	
Cash received from divestitures	279	
Other investing activities	2,246	(1,467)
	(146,678)	(145,243)
Cash Flows from Financing Activities		
Issuance of notes payable	25,000	55,000
Issuance of long-term debt	454	560
Repayment of notes payable		(105,000)
Repayment of long-term debt	(848)	(748)
Repayment of medium-term notes		(35,000)
TDS Common Shares and Special Common Shares issued for benefit plans	7,040	3,080
U.S. Cellular Common Shares issued for benefit plans	5,558	3,858
Distributions to minority partners	(2,519)	(4,146)
Dividends paid	(11,399)	(10,749)
Other financing activities	(655)	1,207
	22,631	(91,938)
Net Increase (Decrease) in Cash and Cash Equivalents	163,078	(23,945)
Cash and Cash Equivalents -		
Beginning of period	1,013,325	1,095,791
End of period	$ 1,176,403	$ 1,071,846

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

Telephone and Data Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

Assets

Unaudited

	March 31, 2007 (Dollars in thousands)	December 31, 2006
Current Assets		
Cash and cash equivalents	$ 1,176,403	$ 1,013,325
Accounts receivable		
Due from customers, less allowance of $12,932 and $15,807, respectively	341,331	357,279
Other, principally connecting companies, less allowance of $8,332 and $9,576, respectively	146,418	162,888
Marketable equity securities	1,611,464	1,205,344
Inventory	113,477	128,981
Prepaid expenses	53,937	43,529
Other current assets	21,071	61,738
	3,464,101	2,973,084
Investments		
Marketable equity securities	933,791	1,585,286
Licenses	1,528,307	1,520,407
Goodwill	653,671	647,853
Customer lists, net of accumulated amortization of $71,883 and $68,110, respectively	23,983	26,196
Investments in unconsolidated entities	218,874	197,636
Other investments, less valuation allowance of $55,144 in both periods	10,928	11,073
	3,369,554	3,988,451
Property, Plant and Equipment		
In service and under construction	7,786,558	7,700,746
Less accumulated depreciation	4,254,252	4,119,360
	3,532,306	3,581,386
Other Assets and Deferred Charges	53,978	56,593
	$ 10,419,939	$ 10,599,514

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

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Telephone and Data Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

Liabilities and Stockholders Equity

Unaudited

	March 31, 2007 (Dollars in thousands)	December 31, 2006
Current Liabilities		
Current portion of long-term debt	$ 2,967	$ 2,917
Forward contracts	1,079,627	738,408
Notes payable	60,000	35,000
Accounts payable	267,883	294,932
Customer deposits and deferred revenues	153,979	141,164
Accrued interest	32,132	26,729
Accrued taxes	46,937	38,324
Accrued compensation	48,951	72,804
Derivative liability	358,193	359,970
Deferred income tax liability	345,548	236,397
Other current liabilities	125,710	138,086
	2,521,927	2,084,731
Deferred Liabilities and Credits		
Net deferred income tax liability	811,127	950,348
Derivative liability	142,209	393,776
Asset retirement obligation	237,171	232,312
Other deferred liabilities and credits	152,365	136,733
	1,342,872	1,713,169
Long-Term Debt		
Long-term debt, excluding current portion	1,632,977	1,633,308
Forward contracts	650,816	987,301
	2,283,793	2,620,609
Commitment and Contingencies		
Minority Interest in Subsidiaries	631,372	609,722
Preferred Shares	860	863
Common Stockholders Equity		
Common Shares, par value $.01 per share; authorized 100,000,000 shares; issued 56,559,000 and 56,558,000 shares, respectively	566	566
Special Common Shares, par value $.01 per share; authorized 165,000,000 shares; issued 62,941,000 and 62,941,000 shares, respectively	629	629
Series A Common Shares, par value $.01 per share; authorized 25,000,000 shares; issued and outstanding 6,444,000 and 6,445,000 shares, respectively	64	64
Capital in excess of par value	1,993,730	1,992,597
Treasury Shares at cost:		
Common Shares, 4,621,000 and 4,676,000 shares, respectively	(183,677)	(187,103)
Special Common Shares 4,539,000 and 4,676,000 shares, respectively	(179,118)	(187,016)
Accumulated other comprehensive income	386,748	522,113
Retained earnings	1,620,173	1,428,570
	3,639,115	3,570,420
	$ 10,419,939	$ 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 s 80.6%-owned wireless telephone subsidiary, United States Cellular Corporation (U.S. Cellular), TDS s 100%-owned wireline telephone subsidiary, TDS Telecommunications Corporation (TDS Telecom) and TDS s 80%-owned printing and distribution company, Suttle Straus, Inc. In addition, the consolidated financial statements include all entities in which TDS has a variable interest that requires TDS to absorb a majority of the entity s expected gains or losses, or both. All material intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the 2007 financial statement presentation.

The consolidated financial statements included herein have been prepared by TDS, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, TDS believes that the disclosures included herein are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in TDS s 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 March 31, 2007, and the results of operations for the three months ended March 31, 2007 and 2006 and the cash flows for the three months ended March 31, 2007 and 2006. The results of operations for the three months ended March 31, 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 $3.6 million and $3.5 million for the three months ended March 31, 2007 and March 31, 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 March 31, 2007	2006
	(Dollars in thousands)	
Service Cost	$ 609	$ 544
Interest on accumulated benefit obligation	858	692
Expected return on plan assets	(821)	(648)
Amortization of:		
Prior service cost	(207)	(208)
Net loss	340	292
Net postretirement cost	$ 779	$ 672

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

Amounts Collected from Customers and Remitted to Governmental Authorities

The Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)*, requires disclosure of TDS s policy related to the presentation of such items. 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 expenses. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled $30.8 million and $21.5 million for the three months ended March 31, 2007 and 2006, respectively.

Recent Accounting Pronouncements

The FASB issued Interpretation 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48) in July 2006. See Note 5 Income Taxes for information related to TDS s adoption of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands disclosure related to the use of fair value measures in financial statements. SFAS 157 does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in GAAP. The Statement 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 fair value based on an entity s own fair value assumptions as the lowest level. The Statement is effective for TDS s 2008 financial statements; however, earlier application is encouraged. 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, 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 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 s 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.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115* (SFAS 159), was issued in February 2007. 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 s 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 competitiveness of its operations and maximizing its long-term return on investment. As part of this strategy, TDS reviews attractive opportunities to acquire additional operating markets, telecommunications companies and wireless spectrum. In addition, TDS may seek to divest outright or include in exchanges for other wireless interests those markets and wireless interests that are not strategic to its long-term success.

In the first quarter of 2007, U.S. Cellular received $0.3 million from escrow that was set up in the fourth quarter of 2006 in conjunction with the sale of Midwest Wireless Communications to ALLTEL Corporation. U.S. Cellular had owned an interest in Midwest Wireless Communications prior to the purchase by ALLTEL.

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, subject to a working capital adjustment. This acquisition increased investments in licenses, goodwill and customer lists by $7.9 million, $5.8 million and $1.6 million, respectively. The $5.8 million of goodwill is deductible for income tax purposes.

4. Fair Value Adjustment of Derivative Instruments

Fair value adjustment of derivative instruments resulted in gains of $255.9 million in the first quarter of 2007 and $0.03 million in the first quarter of 2006. Fair value adjustment of derivative instruments reflects 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. 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 which aggregated a $0.4 million gain in both the first quarter of 2007 and the first quarter of 2006.

5. Income Taxes

The overall effective tax rate on income before income taxes and minority interest for the three months ended March 31, 2007 and 2006 was 37.3% and 40.9%, respectively. The effective tax rate for the 2007 period is lower than 2006 primarily due to the impact of state taxes.

Effective January 1, 2007, TDS adopted 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 is a cumulative reduction of beginning retained earnings.

At January 1, 2007, TDS had $28.4 million in unrecognized tax benefits. Approximately $20.1 million of the total amount of unrecognized tax benefits relates to tax benefits that would, if recognized in the financial statements, reduce TDS s effective tax rate in future periods. 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.

TDS recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. This amount totaled $1.5 million for the quarter ended March 31, 2007. Accrued interest and penalties were $1.3 million and $2.8 million as of January 1, 2007 and March 31, 2007, respectively.

TDS and its subsidiaries file federal and state income tax returns. With few exceptions, TDS is no longer

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subject to federal, state and local income tax examinations by tax authorities for years prior to 2002. In June of 2006, the IRS commenced its audit of TDS s 2002 2004 consolidated federal income tax returns. After TDS filed its 2005 consolidated federal tax return in September 2006, the IRS added 2005 to the audit cycle. The audit of 2002 2005 is in its preliminary stages.

6. 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 available to common and weighted average common shares adjusted to include the effect of potentially dilutive securities. Potentially dilutive securities include incremental shares issuable upon exercise of outstanding stock options, the vesting of restricted stock units and the potential conversion of preferred stock to Common and Special Common shares.

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

	Three Months Ended March 31, 2007	**2006**
	(Dollars and shares in thousands, except earnings per share)	
Basic Earnings per Share:		
Net income	$ 219,325	$ 35,997
Preferred dividend requirement	(13)	(51)
Net income available to common used in basic earnings per share	$ 219,312	$ 35,946
Diluted Earnings per Share:		
Net income available to common used in basic earnings per share	$ 219,312	$ 35,946
Minority income adjustment (1)	(529)	(211)
Preferred dividend adjustment (2)	12	12
Net income available to common used in diluted earnings per share	$ 218,795	$ 35,747
Weighted average number of shares of common stock used in basic earnings per share:		
Common Shares	51,975	51,471
Special Common Shares	58,417	57,823
Series A Common Shares	6,445	6,447
Weighted average number of shares of common stock used in basic earnings per share	116,837	115,741
Effects of Dilutive Securities:		
Effects of stock options and restricted stock units (3)	1,502	532
Conversion of preferred shares (4)	44	54
Weighted average number of shares of common stock used in diluted earnings per share	118,383	116,327
Basic Earnings per Share	$ 1.88	$ 0.31
Diluted Earnings per Share	$ 1.85	$ 0.31

(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 224,722 Common Shares and 224,722 Special Common Shares were not included in computing Diluted Earnings per Share in the three months ended March 31, 2007, because their effects were antidilutive. Stock options convertible into 1,294,004 Common Shares and 1,294,004 Special Common Shares were not included in computing Diluted Earnings per Share in the three months ended March 31, 2006 because their effects were antidilutive.

(4) Preferred shares convertible into 54,540 Common Shares and 54,540 Special Common Shares were not included in computing Diluted Earnings per Share in the three months ended March 31, 2006, because their effects were antidilutive.

7. Licenses and Goodwill

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

The TDS Telecom s incumbent local exchange carriers are designated as ILEC in the table and its competitive local exchange carrier is designated as CLEC .

(Dollars in thousands)	U.S. Cellular(1)	TDS Telecom CLEC	Total
Licenses			
Balance December 31, 2006	$ 1,517,607	$ 2,800	$ 1,520,407
Acquisitions	7,900		7,900
Balance March 31, 2007	$ 1,525,507	$ 2,800	$ 1,528,307
Balance December 31, 2005	$ 1,385,543	$ 2,800	$ 1,388,343
Other	(227)		(227)
Balance March 31, 2006	$ 1,385,316	$ 2,800	$ 1,388,116

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

(Dollars in thousands)	U.S. Cellular(1)	TDS Telecom ILEC	Other (2)	Total
Goodwill				
Balance December 31, 2006	$ 246,920	$ 398,652	$ 2,281	$ 647,853
Acquisitions	5,818			5,818
Balance March 31, 2007	$ 252,738	$ 398,652	$ 2,281	$ 653,671
Balance December 31, 2005	$ 242,703	$ 398,652	$ 2,281	$ 643,636
Other	318			318
Balance March 31, 2006	$ 243,021	$ 398,652	$ 2,281	$ 643,954

(1) U.S. Cellular s balances in each period include $(238.5) million of goodwill allocated from TDS.

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

8. Customer Lists

Customer lists, which are intangible assets resulting from the acquisition of wireless markets, are amortized based on average customer retention periods using the double declining balance method in the first year, switching to the straight-line method over the remaining estimated life. Amortization expense was $3.8 million and $5.7 million for the first quarter of 2007 and 2006, respectively. Amortization expense for the remainder of 2007 and for the years 2008-2012 is expected to be $6.6 million, $7.5 million, $5.6 million, $3.9 million, $0.3 million and $0.1 million, respectively.

9. 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. 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 s marketable equity securities is summarized as follows:

	March 31, 2007	December 31, 2006
	(Dollars in thousands)	
Marketable Equity Securities Current Assets		
Deutsche Telekom AG - 75,492,172 and 45,492,172 Ordinary Shares, respectively	$ 1,247,886	$ 833,872
Vodafone Group Plc 11,327,674 and 11,327,674 American Depositary Receipts, respectively	304,261	314,683
VeriSign, Inc. - 2,361,333 and 2,361,333 Common Shares, respectively	59,317	56,789
Aggregate fair value included in Current Assets	1,611,464	1,205,344
Marketable Equity Securities Investments		
Deutsche Telekom AG - 55,969,689 and 85,969,689 Ordinary Shares, respectively	925,179	1,575,824
Rural Cellular Corporation 719,396 equivalent Common Shares	8,604	9,453
Other	8	9
Aggregate fair value included in investments	933,791	1,585,286
Total aggregate fair value	2,545,255	2,790,630
Accounting cost basis	1,507,477	1,507,477
Gross holding gains	1,037,778	1,283,153
Gross realized holding gains	(32,256)	(29,729)
Gross unrealized holding gains	1,005,522	1,253,424
Equity method unrealized gains	352	352
Income tax (expense)	(367,738)	(488,817)
Minority share of unrealized holding gains	(14,018)	(14,981)
Unrealized holding gains, net of tax and minority share	624,118	749,978
Derivative instruments, net of tax and minority share	(224,709)	(215,122)
Retirement plans, net of tax	(12,661)	(12,743)
Accumulated other comprehensive income	$ 386,748	$ 522,113

The investment in Deutsche Telekom AG (Deutsche Telekom) resulted from TDS s 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 Group Plc (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) is the result of 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) is the result of 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 has 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.

The forward contracts related to TDS s 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 the 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 the Vodafone ADRs in settlement of the forward contracts, and to dispose of all remaining Vodafone ADRs in connection therewith. 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 the related forward contracts. TDS expects to record a pre-tax gain of approximately $138 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.

The forward contracts related to TDS s 45,492,172 Deutsche Telekom ordinary shares mature between July and September 2007. The forward contracts related to TDS s 30,000,000 Deutsche Telekom ordinary shares mature between January and February 2008. The forward contracts related to TDS Telecom s 2,362,976 Vodafone ADR s mature in October 2007.

See Note 12 Long-term Debt and Forward Contracts for additional information related to forward contracts.

10. Investments in Unconsolidated Entities

Investments in unconsolidated entities consist of amounts invested in wireless and wireline entities in which TDS and its subsidiaries holds 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:

	March 31, 2007	March 31, 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 approximately 2.9% of Midwest Wireless Holdings, L.L.C., the parent company of Midwest Wireless Communications L.L.C. The investment in Midwest Wireless Communications, L.L.C. was disposed of in the fourth quarter of 2006.

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

	Three Months Ended March 31, 2007	2006
	(Dollars in thousands)	
Results of operations		
Revenues	$ 1,097,000	$ 993,000
Operating expenses	730,000	688,000
Operating income	367,000	305,000
Other income (expense), net	7,000	8,000
Net Income	$ 374,000	$ 313,000

11. Revolving Credit Facilities

TDS has a $600 million revolving credit facility available for general corporate purposes. At March 31, 2007, letters of credit were $3.4 million, 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 s credit rating. At March 31, 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 5.32% at March 31, 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 8.25% at March 31, 2007). This credit facility expires in December 2009.

TDS also has $75 million of direct bank lines of credit at March 31, 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 8.25% at March 31, 2007).

U.S. Cellular has a $700 million revolving credit facility available for general corporate purposes. At March 31, 2007, outstanding notes payable and letters of credit were $60.0 million and $0.4 million, respectively, leaving $639.6 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 U.S. Cellular s credit rating. At March 31, 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 5.32% at March 31, 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 8.25% at March 31, 2007). This credit facility expires in December 2009.

TDS s 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 s or U.S. Cellular s credit rating. A downgrade in TDS s 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 s and U.S. Cellular s credit ratings as of the date of this filing are as follows:

Moody s (Issued November 10, 2005)	Baa3 under review for possible further downgrade
Standard & Poor s (Issued April 23, 2007)	BB+ on credit watch with negative implications
Fitch (Issued November 10, 2005)	BBB+ on 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 remain on credit watch with negative implications.

The maturity dates of borrowings under TDS s 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 in certain filings. In addition, on April 23, 2007, TDS announced another restatement that caused a further delay in TDS s SEC filings. 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. 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. The waivers, as amended, require the Form 10-K for the year ended December 31, 2006 to be filed by June 30, 2007 and the Form 10-Q for the quarter ended March 31, 2007 to filed within 45 days after the filing of the Form 10-K for the year ended December 31, 2006. U.S. Cellular s Form 10-K for the year ended December 31, 2006 and the Form 10-Q for the quarter ended March 31, 2007 were filed on April 23, 2007 and May 15, 2007, respectively. TDS s Form 10-K for the year ended December 31, 2006 and Form 10-Q for the quarter ended March 31, 2007 were filed on June 19, 2007.

12. Long-Term Debt and Forward Contracts

The late filing of TDS s and U.S. Cellular s Forms 10-Q for the quarterly period ended September 30, 2006 and Forms 10-K for the year ended December 31, 2006 and the failure to deliver such Forms 10-Q and 10-K to the trustees of the TDS and U.S. Cellular debt indentures on a timely basis, resulted in non-compliance under such debt indentures. However, this non-compliance did not result in an event of default or a default. TDS and U.S. Cellular believe that non-compliance was cured upon the filing of such Forms 10-Q and 10-K. In addition, the late filing of TDS s Form 10-Q for the quarterly period ended March 31, 2007 and the failure to deliver such Form 10-Q to the trustee of the TDS debt indenture on a timely basis resulted in further non-compliance under such debt indenture. However, this non-compliance did not result in an event of default or a default. TDS believes that such non-compliance was cured upon the filing of this Form 10-Q. TDS and U.S. Cellular have not failed to make nor do they expect to fail to make any scheduled payment of principal or interest under such indentures.

Except as noted above, TDS believes that it and its subsidiaries were in compliance as of March 31, 2007 with all covenants and other requirements set forth in its long-term debt indentures. Such indentures do not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in TDS s credit rating. However, a downgrade in TDS s credit rating could adversely affect its ability to obtain long-term debt financing in the future.

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

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, Vodafone and VeriSign 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 SFAS No. 133, *Accounting for Derivatives and Hedging Activities*.

The Deutsche Telekom forward contracts mature from July 2007 to September 2008. A majority of the contracts require quarterly interest payments at the LIBOR rate plus 50 basis points (the three-month LIBOR rate was 5.35% at March 31, 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 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 5.35% at March 31, 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 forward contracts, subsidiaries of TDS and U.S. Cellular will continue to own the contracted shares and will receive dividends paid on such contracted shares, if any. The forward contracts, at TDS s and U.S. Cellular s 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 and U.S. Cellular elect to settle in shares, they 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 and U.S. Cellular would incur a current tax liability at the time of delivery based on the difference between the tax basis of the marketable equity securities delivered and the net amount realized through maturity. If TDS and U.S. Cellular elect to settle in cash, they 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 and U.S. Cellular have 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.

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. TDS elected to deliver the 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 the Vodafone ADRs in settlement of the forward contracts, and to dispose of all remaining Vodafone ADRs in connection therewith. 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 the related forward contracts.

TDS and U.S. Cellular are 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 in certain SEC filings. In addition, on April 23, 2007, TDS announced another restatement that caused a further delay in TDS s SEC filings. 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. 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 to such forward contracts, under which the counterparty agreed to waive any defaults that may have occurred as a result of the restatements and late filings. The waivers, as amended, require the Form 10-K for the year ended December 31, 2006 to be filed by June 30, 2007 and the Form 10-Q for the quarter ended March 31, 2007 to filed within 45 days after the filing of the Form 10-K for the year ended December 31, 2006. U.S. Cellular s Form 10-K for the year ended December 31, 2006 and the Form 10-Q for the quarter ended march 31, 2007 were filed on April 23, 2007 and May 15, 2007, respectively. TDS s Form 10-K for the year ended December 31, 2006 and Form 10-Q for the quarter ended March 31, 2007 were filed on June 19, 2007.

13. Commitments and Contingencies

Indemnifications

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

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 March 31, 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 in a number of legal proceedings before the FCC and various state and federal courts. In accordance with SFAS No. 5, 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.

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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.

14. Minority Interest in Subsidiaries

Under SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, certain minority interests in consolidated entities with finite lives may meet the standard s definition of a mandatorily redeemable financial instrument and thus require reclassification as liabilities and remeasurement at the estimated amount of cash that would be due and payable to settle such minority interests under the applicable entity s organization agreement assuming an orderly liquidation of the finite-lived entity, net of estimated liquidation costs (the settlement value). TDS 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 $158.9 million at March 31, 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 March 31, 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 partnerships and L.L.C.s at March 31, 2007 is $33.3 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 $125.6 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 s share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements. The estimate of settlement value was based on certain factors and assumptions which are subjective in nature. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount.

15. 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.

The Board of Directors of U.S. Cellular has authorized the repurchase of a limited amount of U.S. Cellular common shares on a quarterly basis, primarily for use in employee benefit plans. This authorization does not have an expiration date. No U.S. Cellular common shares were repurchased in the first quarter of 2007 or 2006.

On March 6, 2007, the Board of Directors of U.S. Cellular authorized the repurchase of up to 500,000 Common Shares of U.S. Cellular from time to time through open market purchases, block transactions, private transactions or other methods. This authorization will expire on March 6, 2010. This authorization is in addition to U.S. Cellular s existing limited share repurchase authorization discussed above. See Note 19 Subsequent Events for additional information related to this share repurchase authorization.

16. Accumulated Other Comprehensive Income

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

	Three Months Ended March 31, 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	(247,902)	22,929
Income tax (expense) benefit	90,774	(9,212)
	(157,128)	13,717
Minority share of unrealized losses	962	651
Net change in unrealized gains (losses) on marketable equity securities in comprehensive income	(156,166)	14,368
Application of FIN 48	30,306	
Balance, end of period	$ 624,118	$ 592,641
Derivative Instruments		
Balance, beginning of period	$ (215,122)	$ (214,632)
Add (deduct):		
Minority share of unrealized losses	(4)	(3)
Net change in unrealized gains (losses) on derivative instruments included in comprehensive income	(4)	(3)
Application of FIN 48	(9,583)	
Balance, end of period	$ (224,709)	$ (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	(127)	
Amortization of unrecognized net loss, net of taxes	209	
Net change in retirement plans included in comprehensive income	82	
Balance, end of year	$ (12,661)	$
Accumulated Other Comprehensive Income		
Balance, beginning of period	$ 522,113	$ 363,641
Net change in marketable equity securities	(156,166)	14,368
Net change in derivative instruments	(4)	(3)
Net change due to retirement plans	82	
Net change in unrealized gains (losses) included in comprehensive income	(156,088)	14,365
Application of FIN 48	20,723	
Balance, end of period	$ 386,748	$ 378,006

	Three Months Ended March 31, 2007	2006
	(Dollars in thousands)	
Comprehensive Income		
Net income	$ 219,325	$ 35,997
Net change in unrealized gains (losses) included in comprehensive income	(156,088)	14,365
	$ 63,237	$ 50,362

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17. Stock-Based Compensation

At March 31, 2007, unrecognized compensation cost for all stock-based compensation awards was $15.4 million. The unrecognized compensation cost for stock-based compensation awards at March 31, 2007 is expected to be recognized over a weighted average period of 0.8 years.

For the three months ended March 31, 2007 and 2006, $4.7 million and $8.6 million of stock-based compensation expense was recorded. For the three months ended March 31, 2007, $0.4 million of stock-based compensation expense was recorded in cost of services and $4.3 million was recorded in Selling, general and administrative expenses. For the three months ended March 31, 2006, all stock-based compensation expense was recorded in Selling, general and administrative expense.

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 U.S. Cellular section following the TDS section.

Effective January 1, 2006, TDS adopted the fair value recognition provisions of SFAS 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 a 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 had reserved 3,194,000 Common Shares and 11,325,000 Special Common Shares at March 31, 2007, for equity awards granted and to be granted under this plan. At March 31, 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 March 31, 2007 TDS had also reserved 313,000 Special Common Shares under an employee stock purchase plan. The maximum number of TDS Common Shares, TDS Special Common Shares and TDS Series A Common Shares that may be issued to employees under all stock-based compensation plans in effect at March 31, 2007 was 3,194,000, 11,638,000 and 0 shares, respectively. TDS has also created a Non-Employee Directors Plan under which it has reserved 67,000 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 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 March 31, 2007 expire between 2007 and 2016. TDS estimates the fair value of stock options granted using the Black-Scholes valuation model. TDS did not grant stock options during the three months ended March 31, 2007 and March 31, 2006.

A summary of outstanding and exercisable stock options as of March 31, 2007 is presented below:

Tandem Options (1)

Options Outstanding				Options Exercisable		
Range of Exercise Prices	**Number Outstanding at March 31, 2007**	**Weighted Average Remaining Contractual Life (in years)**	**Weighted Average Exercise Price**	**Number Exercisable at March 31, 2007**	**Weighted Average Remaining Contractual Life (in years)**	**Weighted Average Exercise Price**
$33.87-$49.99	276,000	2.2	$ 42.05	276,000	N/A	$ 42.05
$50.00-$74.99	758,000	5.9	61.92	698,000	N/A	61.57
$75.00-$99.99	675,000	6.2	82.19	675,000	N/A	