

TELEPHONE & DATA SYSTEMS INC /DE/
Form DEF 14A
June 26, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

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Check the appropriate box:

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Telephone and Data Systems, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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TELEPHONE AND DATA SYSTEMS, INC.

30 North LaSalle Street
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Chicago, IL 60602
Phone: (312) 630-1900
Fax: (312) 630-1908

June 26, 2007

Please note: To increase the efficiency of our financial communications, TDS will no longer produce a traditional printed annual report. The letter to shareholders and the attached appendix of Exhibit 13 to TDS Form 10-K serve as the company's annual report to shareholders, and are available, along with other financial and supplemental information, on the TDS web site, www.teldta.com.

To Our Shareholders

Telephone and Data Systems, Inc. is a growing, profitable, and sound group of complementary companies that delivers excellent service to its customers, and growth in value to its shareholders. An example of value growth is the annually increasing dividends TDS has paid to its shareholders for 33 consecutive years.

Since its founding in 1969, TDS has committed to differentiating itself by providing an exceptional customer experience through high-quality services and products. This commitment is reflected in low customer churn rates and high rankings for customer satisfaction and wireless call quality in independent surveys.

2006 Overview

The TDS companies focused on their core business strategies in 2006. U.S. Cellular, TDS' publicly traded wireless subsidiary, grew its customer base, service revenues, revenues per customer, and profitability, and it continued to strengthen its footprint. TDS Telecom, TDS' primarily wireline subsidiary, rapidly increased its share of high-speed data services in its chosen markets, making important progress toward its goal of being the preferred broadband provider. TDS' cash flow from operating activities totaled \$887.2 million in 2006, compared to \$868.2 million in 2005.

TDS recently completed a financial restatement. While this was being completed, our commitment to and focus on our operations remained strong. TDS and U.S. Cellular continue to review and improve our financial processes and controls and the expertise in our accounting functions. These initiatives are being guided by chief financial officer Kenneth R. Meyers, who assumed his new duties on January 1, 2007.

TDS Consolidated

TDS has a disciplined financial approach that gives us the flexibility and access to liquidity to pursue productive business opportunities. This approach includes the following objectives:

- Grow revenues at rates greater than those of the markets in which we participate. Based on our business mix, our target is seven to ten percent compound annual revenue growth over five years.
- Generate in each business a return on capital (ROC) greater than its cost of capital.
- Target a strong, investment-grade credit rating.

TDS' five-year compound annual growth rate in operating revenues through the end of 2006 was 11 percent. TDS grew its operating revenues 10 percent in 2006 to \$4.4 billion.

In 2006, TDS also redeemed \$200 million of senior notes and \$35 million of medium-term notes.

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In March 2007, TDS announced that it was ceasing activity relating to its possible offer to acquire all of the Common Shares of U.S. Cellular that it did not already own. Early in 2005, TDS had disclosed that it

might make an offer to issue its Special Common Shares in exchange for such U.S. Cellular Common Shares.

In ceasing activity related to the acquisition, TDS made it clear that it would not commence or complete a possible transaction for U.S. Cellular shares on uneconomic terms. TDS believes that an acceptable exchange ratio would need to reflect appropriately the relative values of TDS and U.S. Cellular, recognizing that a substantial portion of the value of TDS is comprised of its ownership of U.S. Cellular. TDS believes that the relative prices of TDS Special Common Shares and U.S. Cellular Common Shares do not reflect this fact. As a legal matter, termination of consideration of a possible offer does not preclude TDS from acquiring the remaining Common Shares of U.S. Cellular in the future, should conditions change.

In May 2007, Gregory P. Josefowicz was nominated for election to the TDS board of directors. Mr. Josefowicz brings with him executive management, retail merchandising and consumer marketing insight, and more than 20 years of experience leading large retail organizations. Mr. Josefowicz is being nominated to replace Martin Solomon, who will retire from our board this year. We thank Mr. Solomon for his many years of excellent service.

U.S. CELLULAR

U.S. Cellular's top strategic objectives are to: 1) differentiate itself from competitors by achieving high customer satisfaction, 2) focus on high-value, postpay customers, 3) compete aggressively by offering attractive Wide Area, National, and Family calling plans, and 4) strengthen its geographic footprint.

Achieved good customer and revenue growth

U.S. Cellular added 297,000 net retail customers in 2006, not including acquisitions or divestitures. Its total customer base grew to 5,815,000 (including wholesale customers), an increase of 6 percent over 2005. The company grew service revenues 14 percent, from \$2.8 billion in 2005 to \$3.2 billion in 2006. U.S. Cellular continues to maintain an average postpay customer churn rate of 1.5 percent per month—one of the lowest in the wireless industry.

Further improved top-quality network

U.S. Cellular increased its total number of cell sites in service nationwide to 5,925, a 9 percent increase over 2005, enabling the company to further increase the geographic scope and signal quality of its network.

As evidence of the quality of the company's network, U.S. Cellular received a ranking of **Highest Call Quality Performance Among Wireless Cell Phone Users In North Central Region** in both Volume 1 and Volume 2 of the J.D. Power and Associates 2006 Wireless Call Quality Performance StudySM, and received top ranking again in Volume 1 of the 2007 study. The North Central Region in these studies covers Wisconsin, Illinois, Indiana, Ohio, and Michigan.

U.S. Cellular also tied for **Highest Overall Satisfaction Among Wireless Telephone Users in North Central Region** in Volume 1 of the J.D. Power and Associates 2006 Wireless Regional Customer Satisfaction Index (CSI) StudySM, demonstrating the company's commitment to delivering excellent customer satisfaction.

Grew data services revenues 66 percent

Data services revenues for 2006 were \$217 million—a 66 percent increase over 2005. Revenue related to data services continues to climb in response to an ever-growing array of **easyedgeSM** data services offerings, including new games and mobile information applications. U.S. Cellular's Short Messaging Service (SMS) and BlackBerry® service offerings are increasingly popular with growing numbers of customers. The company also introduced Mobile Shop, a new **easyedge** user interface for the MOTORAZR v3m, one of the strongest-selling handsets.

Introduced new handsets and services for consumers and businesses

U.S. Cellular introduced 27 new handsets in 2006, including the MOTOKRZR K1m, and stylish new BlackBerry® Wireless Solution smart phones. U.S. Cellular was the first to offer the RED MOTORAZR V3m, which was designed to raise money for (RED), an initiative that raises money and awareness for the Global Fund. Sales of the handset exceeded U.S. Cellular's sales targets.

To expand offerings for prepaid customers, U.S. Cellular added Text Messaging and Pay-As-You-Go Text Messaging packages to its Prepaid Wireless Plans.

The company rolled out streamlined National, Wide Area, and Family calling plans, making it easier for consumers and businesses to clearly understand the valuable options available.

Strengthened the strategic footprint and improved distribution

In 2006, U.S. Cellular successfully transitioned to U.S. Cellular service plans the 15 Rural Service Area (RSA) markets in Nebraska and Kansas that were acquired through an exchange of assets with Alltel in 2005. U.S. Cellular also acquired the remaining and majority interest in the Tennessee RSA 3 market, adding 21,000 retail customers, 8 retail stores, 17 authorized agent locations, and 46 cell sites.

Carroll Wireless, L.P., in which U.S. Cellular is a limited partner, was granted 16 licenses in 2006 as a result of its successful bids in the 2005 Federal Communication Commission's (FCC) Auction 58. Barat Wireless L.P., in which U.S. Cellular is a limited partner, was recently granted the 17 licenses it bid on in FCC Auction 66. All of the Carroll and Barat licenses cover market areas that are contiguous with or overlap U.S. Cellular's existing markets.

In the greater Chicago market, U.S. Cellular's largest, the company added 10 new company-owned locations and 11 authorized agent locations. Throughout U.S. Cellular, the store design of many locations was updated.

Added video, music, and games to 3G high-speed data market trial

The Milwaukee, Wisconsin market launch of services using the CDMA, 3G technology known as Evolution-Data Optimized (EV-DO) continues, with the recent addition of video, music, and 3D games. Depending on further results of the Milwaukee launch, U.S. Cellular may decide to offer EV-DO-based services in certain other markets in 2007.

TDS TELECOM

TDS Telecom's main goals are to be the broadband provider of choice in its chosen markets, and to attract and retain consumer and commercial customers by offering new, high-quality broadband services and products that deliver desired value. The company is also actively improving its cost structure through process redesign, under the guidance of new chief executive officer David A. Wittwer, who was most recently TDS Telecom's chief operating officer.

Increased DSL penetration

The company made excellent progress toward its broadband goals in 2006, increasing the number of Digital Subscriber Line (DSL) accounts by 45,300, to 147,200 (ILEC and CLEC combined) and brought DSL capability to more ILEC markets. The company aggressively offers bundles that include DSL and other popular offerings, such as EchoStar DISH Network, and long distance service.

Fueled by the growth in DSL lines, the company increased its total access line equivalents by 3 percent in 2006, to 1,213,500.

Trialing key video and fixed wireless technologies

TDS Telecom is trialing fixed wireless technology and services with both consumer and commercial customers in the Fox River Valley and Madison areas of Wisconsin. The trials include high-speed data and Voice over Internet Protocol (VoIP). The company is trialing video services using Fiber-to-the-Home (FTTH)

technology, through favorable franchise agreements in two suburban markets. The company will offer voice, data, and TDS TV in these two markets in 2007, as part of its long-term objective of providing competitive video, voice, and data services in a portion of its markets over a converged infrastructure.

Proactively addressed regulatory issues

TDS Telecom is actively working with state and federal regulatory agencies regarding key issues such as intercarrier compensation, seeking to enable the company to protect and grow revenues.

LOOKING FORWARD: KEY INITIATIVES IN 2007 AND BEYOND

The TDS companies have a number of significant initiatives in progress, including:

U.S. Cellular

- Grow the number of postpay customers and expand market share in recently developed markets. No major new market launches are planned for 2007.
- Expand points of distribution in larger markets.
- Continue to add popular and profitable **easyedge** services.
- Add new handsets targeted at both consumer and business segments.
- Expand services in the 3G market trial in Milwaukee.
- Improve profitability and cash flow from operating activities.

TDS Telecom

- Strengthen its leading broadband position through rapid DSL growth.
- Develop and roll out new services and applications for broadband customers.
- Continue trials of video and fixed wireless technologies.
- Aggressively market bundles of voice, high-speed data, and video services.
- Continue to improve the cost structure.

The TDS, U.S. Cellular, and TDS Telecom associates/employees now totaling 11,600 continue to dedicate their energy and talents to fulfilling the TDS mission of providing outstanding communications services to our customers, and meeting the needs of our shareholders, our people, and our communities. In closing, we would like to extend our thanks to the shareholders of TDS for your ongoing support of the company's objectives.

Cordially yours,

LeRoy T. Carlson, Jr.

Walter C.D. Carlson

President and Chief Executive Officer

Chairman of the Board

TELEPHONE AND DATA SYSTEMS, INC.

30 North LaSalle Street

Suite 4000

Chicago, Illinois 60602

Phone: (312) 630-1900

Fax: (312) 630-1908

June 26, 2007

Dear Shareholders:

You are cordially invited to attend our 2007 annual meeting of shareholders on Thursday, July 26, 2007, at 10:00 a.m., Chicago time, at The Standard Club, 320 South Plymouth Court, Chicago, Illinois. At the meeting, we will report on the plans and accomplishments of Telephone and Data Systems, Inc. (TDS).

The formal notice of the meeting and our board of directors proxy statement and our 2006 annual report to shareholders are enclosed. Appendix I to the proxy statement contains audited financial statements and certain other financial information for the year ended December 31, 2006, as required by the rules and regulations of the Securities and Exchange Commission (SEC). At our 2007 annual meeting, shareholders are being asked to take the following actions:

1. elect members of the board of directors;
2. consider and approve an amended Non-Employee Director Compensation Plan, as more fully described in the accompanying proxy statement; and
3. ratify the selection of independent registered public accountants for the current fiscal year.

The board of directors recommends a vote **FOR** its nominees for election as directors, **FOR** the proposal to approve an amended Non-Employee Director Compensation Plan and **FOR** the proposal to ratify accountants.

Our board of directors and members of our management team will be at the annual meeting to meet with shareholders and discuss our record of achievement and plans for the future. We would like to have as many shareholders as possible represented at the meeting. Therefore, whether or not you plan to attend the meeting, please sign and return the enclosed proxy card(s), or vote on the Internet in accordance with the instructions set forth on the proxy card.

We look forward to visiting with you at the annual meeting.

Very truly yours,

Walter C.D. Carlson

Chairman of the Board

LeRoy T. Carlson, Jr.

President and Chief Executive Officer

Please help us avoid the expense of follow-up

proxy mailings to shareholders by

signing and returning the enclosed proxy card(s) promptly or

vote on the Internet in accordance

with the instructions set forth on the proxy card.

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
AND
PROXY STATEMENT**

TO THE SHAREHOLDERS OF

TELEPHONE AND DATA SYSTEMS, INC.

The 2007 annual meeting of shareholders of Telephone and Data Systems, Inc., a Delaware corporation, will be held at The Standard Club, 320 South Plymouth Court, Chicago, Illinois, on Thursday, July 26, 2007, at 10:00 a.m., Chicago time, for the following purposes:

1. To elect members of the board of directors. Your board of directors recommends that you vote **FOR** the directors nominated.
2. To consider and approve an amended Non-Employee Director Compensation Plan, as more fully described in the accompanying proxy statement. Your board of directors recommends that you vote **FOR** this proposal.
3. To consider and vote upon a proposal to ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accountants for the year ended December 31, 2007. Your board of directors recommends that you vote **FOR** this proposal.
4. To transact such other business as may properly come before the meeting or any adjournments thereof.

We are first mailing this notice of annual meeting and proxy statement to you on or about June 26, 2007.

We have fixed the close of business on June 8, 2007, as the record date for the determination of shareholders entitled to notice of, and to vote at, the annual meeting or any adjournments thereof.

A complete list of shareholders entitled to vote at the annual meeting, arranged in alphabetical order and by voting group, showing the address of and number of shares held by each shareholder, will be kept open at the offices of TDS, 30 North LaSalle Street, 40th Floor, Chicago, Illinois 60602, for examination by any shareholder during normal business hours, for a period of at least ten days prior to the annual meeting.

SUMMARY

The following is a summary of the actions being taken at the 2007 annual meeting and does not include all of the information that may be important to you. You should carefully read this entire proxy statement and not rely solely on the following summary.

Proposal 1 Election of Directors

Under TDS's Restated Certificate of Incorporation, as amended, the terms of all incumbent directors will expire at the 2007 annual meeting.

Holders of Series A Common Shares and the holders of the Preferred Shares, voting as a group, will be entitled to elect eight directors. Your board of directors has nominated the following current directors for election by the holders of Series A Common Shares and the holders of the Preferred Shares: James Barr III, LeRoy T. Carlson, LeRoy T. Carlson, Jr., Letitia G. Carlson, M.D., Walter C.D. Carlson, Kenneth R. Meyers, Donald C. Nebergall and George W. Off.

Holders of Common Shares and Special Common Shares will vote together and be entitled to elect four directors. Your board of directors has nominated (i) the following current directors for election by the holders of Common Shares: Christopher D. O'Leary, Mitchell H. Saranow and Herbert S. Wander; and (ii) the following new nominee: Gregory P. Josefowicz, to fill the directorship being vacated by Martin L. Solomon.

The board of directors recommends a vote **FOR** its nominees for election as directors.

Proposal 2 Approval of an amended Non-Employee Director Compensation Plan

Shareholders are being asked to approve an amended Non-Employee Director Compensation Plan. The amended plan is more fully described below.

The board of directors recommends that you vote **FOR** this proposal.

Proposal 3 Ratification of Independent Registered Public Accountants for 2007

As in prior years, shareholders are being asked to ratify PricewaterhouseCoopers LLP as our independent registered public accountants for the year ended December 31, 2007.

The board of directors recommends that you vote **FOR** this proposal.

VOTING INFORMATION

What is the record date for the meeting?

The close of business on June 8, 2007 is the record date for the determination of shareholders entitled to notice of, and to vote at, the annual meeting or any adjournments thereof.

What shares of stock entitle holders to vote at the meeting?

We have the following classes of stock outstanding, each of which entitles holders to vote at the meeting:

- Common Shares;
- Special Common Shares;
- Series A Common Shares; and
- Preferred Shares.

The Common Shares are listed on the American Stock Exchange under the symbol TDS. The Special Common Shares are listed on the American Stock Exchange under the symbol TDS.S.

No public market exists for the Series A Common Shares, but the Series A Common Shares are convertible on a share-for-share basis into Common Shares or Special Common Shares.

No public market exists for the Preferred Shares. The Preferred Shares are divided into series, none of which is currently convertible into any class of common stock. All holders of outstanding Preferred Shares vote together with the holders of Common Shares and Series A Common Shares, except in the election of directors. In the election of directors, all outstanding Preferred Shares vote together with the holders of Series A Common Shares.

What is the voting power of the outstanding shares in the election of directors?

The following shows certain information relating to the outstanding shares and voting power of such shares in the election of directors as of the record date:

<i>Class of Stock</i>	<i>Outstanding Shares</i>	<i>Votes per Share</i>	<i>Voting Power</i>	<i>Total Number of Directors Elected by Voting Group and Standing for Election</i>
Series A Common Shares	6,443,109	10	64,431,090	
Preferred Shares	8,603	1	8,603	
Subtotal			64,439,693	8

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Common Shares	51,938,875	1	51,938,875	
Special Common Shares	58,402,073	1	58,402,073	
Subtotal			110,340,948	4
Total Directors				12

What is the voting power of the outstanding shares in matters other than the election of directors?

The following shows certain information relating to the outstanding shares and voting power of such shares as of the record date:

<i>Class of Stock</i>	<i>Outstanding Shares</i>	<i>Votes per Share</i>	<i>Total Voting Power</i>	<i>Percent</i>
Series A Common Shares	6,443,109	10	64,431,090	55.4 %
Common Shares	51,938,875	1	51,938,875	44.6 %
Preferred Shares	8,603	1	8,603	*
			116,378,568	100.0 %

* Less than .1%

Other than as required by law, holders of Special Common Shares do not have any right to vote on any matters except in the election of certain directors, as described above. Accordingly, actions submitted to a vote of shareholders other than the election of directors will generally be voted on only by holders of Common Shares, Series A Common Shares and Preferred Shares.

How may shareholders vote with respect to the election of directors in Proposal 1?

Shareholders may, with respect to directors to be elected by such shareholders:

- vote FOR the election of such director nominees; or
- WITHHOLD authority to vote for such director nominees.

Your board of directors recommends a vote **FOR** its nominees for election as directors.

How may shareholders vote with respect to the amended Non-Employee Director Compensation Plan in Proposal 2?

Shareholders may, with respect to the proposal to approve the amended Non-Employee Director Compensation Plan:

- vote FOR,
- vote AGAINST, or
- ABSTAIN from voting on this proposal.

Your board of directors recommends a vote **FOR** this proposal.

How may shareholders vote with respect to the ratification of independent registered public accountants for 2007 in Proposal 3?

Shareholders may, with respect to the proposal to ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accountants for 2007:

- vote FOR,
- vote AGAINST, or
- ABSTAIN from voting on