TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-Q/A
April 26, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended March 31, 2005 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 o No ý

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ý No 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 ý

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 March 31, 2005**
Common Shares, $.01 par value	51,125,217 Shares
Series A Common Shares, $.01 par value	6,425,099 Shares

Explanatory Note

Telephone and Data Systems, Inc. (TDS) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, which was originally filed with the Securities and Exchange Commission (SEC) on May 4, 2005 (Original Form 10-Q), to amend Part I Financial Information Item 1 Financial Statements, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), and Item 4 Controls and Procedures, and Part II Other Information Item 6 Exhibits and Financial Statement Schedules.

As discussed in Note 1 to the Consolidated Financial Statements, on November 9, 2005, TDS and its audit committee concluded that TDS would amend its Annual Report on Form 10-K for the year ended December 31, 2004 to restate its financial statements and financial information for each of the three years in the period ended December 31, 2004, including quarterly information for 2004 and 2003 and certain selected financial data for the years 2001 and 2000. TDS and its audit committee also concluded that TDS would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2005 and June 30, 2005 to restate the financial statements and financial information included therewith.

The restatement adjustments principally correct items that were recorded in the financial statements previously but not in the proper periods and certain income tax, interest income and consolidation errors. Correction of the errors, with the exception of income taxes discussed below, individually did not have a material impact on income before income taxes and minority interest, net income or earnings per share; however, when aggregated, the items were considered to be material. The restatement adjustments to correct income tax accounting had a material impact individually on net income and earnings per share in prior periods. The restated financial statements are adjusted to record certain obligations in the periods such obligations were incurred, correct the timing of the reversal of certain tax liabilities, correct the consolidation of an 80% owned subsidiary, and record revenues in the periods such revenues were earned. The adjustments are described below.

Income taxes In the restatement, TDS corrected its income tax expense, federal and state taxes payable, liabilities accrued for tax contingencies, deferred income tax assets and liabilities and related disclosures for the first quarter of 2005 and the years ended December 31, 2004, 2003 and 2002 for items identified based on a reconciliation of income tax accounts. The reconciliation compared amounts used for financial reporting purposes to the amounts used in the preparation of the income tax returns, and took into consideration the results of federal and state income tax audits and the resulting book/tax basis differences which generate deferred tax assets and liabilities. In addition, a review of the state deferred income tax rates used to establish deferred income tax assets and liabilities identified errors in the state income tax rate used which resulted in adjustments to correct the amount of deferred income tax assets and liabilities recorded for temporary differences between the timing of when certain transactions are recognized for financial and income tax reporting.

Federal universal service fund (USF) contributions In 2004 and 2003, Universal Service Administrative Company (USAC) billings to U.S. Cellular for USF contributions were based on estimated revenues reported to USAC by U.S. Cellular in accordance with USAC s established procedures. However, U.S. Cellular s actual liability for USF is based upon its actual revenues and USAC s established procedures provide a method to adjust U.S. Cellular s estimated liability to its actual liability. In the first six months of 2005 and the full years of 2004 and 2003, U.S. Cellular s actual revenues exceeded estimated revenues reported to USAC on an interim basis. As a result, additional amounts were due to USAC in 2005 and 2004 based on U.S. Cellular s annual report filings. Such additional amounts were incorrectly expensed when the invoices were received from USAC rather than at the time the obligation was incurred. In the third quarter of 2005, U.S. Cellular corrected its accounting for USF contributions to record expense reflecting the estimated obligation incurred based on actual revenues reported during the period. Accordingly, in the restatement, TDS has adjusted previously reported USF contributions expense by U.S. Cellular to reflect the estimated liability incurred during the period.

Customer contract termination fees In the fourth quarter of 2003, U.S. Cellular revised its business practices related to the billing of contract termination fees charged when a customer disconnected service prior to the end of the customer s contract. This change resulted in an increase in amounts billed to customers and revenues even though a high percentage of the amounts billed were deemed uncollectible. At the time of the change in business practice, U.S. Cellular incorrectly recorded revenues related to such fees at the time of billing, as generally accepted accounting principles (GAAP) would preclude revenue recognition if the receivable is not reasonably assured of collection. In the first quarter of 2005, U.S. Cellular corrected its accounting to record revenues related to such fees only upon collection, in recognition of the fact that the collectibility of the revenues was not reasonably assured at the time of billing. In the restatement, TDS made adjustments to properly reflect U.S. Cellular s revenues for such fees upon collection beginning on October 1, 2003.

Leases and contracts TDS and U.S. Cellular had entered into certain operating leases (as both lessee and lessor) that provide for specific scheduled increases in payments over the lease term. In the third quarter of 2004, TDS made adjustments for the cumulative effect which were not considered to be material to either that quarter or to prior periods to correct its accounting and to recognize revenues and expenses under such agreements on a straight-line basis over the term of the lease in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases, as amended, and related pronouncements. In addition, the accounting for certain other long-term contracts, for which a cumulative effect adjustment was made in the first quarter of 2005, was corrected to recognize expenses in the appropriate periods. The restatement adjustments reverse the cumulative amounts previously recorded in the third quarter of 2004 and the first quarter of 2005, and properly record such revenues and expenses on a straight-line basis in the appropriate periods.

Promotion rebates From time to time, U.S. Cellular s sales promotions include rebates on sales of handsets to customers. In such cases, U.S. Cellular reduces revenues and records a liability at the time of sale reflecting an estimate of rebates to be paid under the promotion. Previously, the accrued liability was not adjusted on a timely basis upon expiration of the promotion to reflect the actual amount of rebates paid based upon information available at the date the financial statements were issued. In the restatement, TDS has corrected revenues and accrued liabilities to reflect the impacts associated with promotion rebates in the appropriate periods.

Operations of consolidated partnerships managed by a third party Historically, U.S. Cellular recorded the results of operations of certain consolidated partnerships managed by a third party on an estimated basis, and adjusted such estimated results to the actual results upon receipt of financial statements in the following quarter. However, GAAP requires that the actual amounts be used. In the restatement, TDS has corrected its financial statements to recognize results of operations in the appropriate period based on the partnerships actual results of operations reported for such period.

Investment income from entities accounted for by the equity method Historically, U.S. Cellular recorded an estimate each quarter of its proportionate share of net income (loss) from certain entities accounted for by the equity method, and adjusted such estimate to the actual share of net income (loss) upon receipt of financial statements in the following quarter. However, GAAP requires that the actual amounts be used. In the restatement, TDS has corrected its financial statements to recognize investment income in the appropriate period based on the entities actual net income (loss) reported for such periods.

Historically, TDS had not fully consolidated its 80%-owned subsidiary, Suttle Straus, to present the operating results of such subsidiary in revenues, cost of service, selling, general and administrative expenses and depreciation. Previously, the net operating results of the subsidiary were included in other income (expense). However, the non-operating portion of the income statement of Suttle Straus was properly presented. The restatement correctly consolidates the results of Suttle Straus. Also, property, plant and equipment was corrected to properly include Suttle Straus fixed assets. Previously, the balances were included in other assets and deferred charges. In addition, certain intercompany elimination entries between TDS, U.S. Cellular, TDS Telecom and Suttle Straus have been recorded.

Revenue and cost of service accruals TDS Telecom reviewed accruals in the first and second quarter of 2004 and determined that an adjustment was required to record unbilled revenue related to its competitive local exchange carrier that were not previously recorded. TDS Telecom also reduced cost of service accruals related to long-distance service as a result of shifting long-distance traffic to a second provider. In the restatement, the adjustments reverse the cumulative amounts previously recorded in the first and second quarters of 2004, and record such revenues and expenses in the appropriate periods.

Consolidated statements of cash flows In the restatement, the classification of cash distributions received from unconsolidated entities has been corrected to properly reflect cash received, which represents a return on investment in the unconsolidated entities, as cash flows from operating activities; previously, the cash received on such investments was classified as cash flows from investing activities. Also, the classification of certain noncash stock-based compensation expense has been corrected to properly reflect such noncash expense as an adjustment to cash flows from operating activities; previously, such expense was classified as cash flows from financing activities.

Interest income In the restatement, TDS corrected its accounting for recording interest income earned by its subsidiaries through a cash management agreement for the first quarter of 2005 and the years ended December 31, 2004, 2003 and 2002. TDS subsidiaries participating in the cash management agreement had not recorded an accrual to increase cash and interest income for their portion of the interest income earned. The correcting entries increased cash and interest income for each period presented.

Other items In addition to the adjustments described above, TDS recorded adjustments to correct and record revenues and expenses in the periods in which such revenues and expenses were earned or incurred. These adjustments were not significant, either individually or in aggregate.

In connection with the restatement, TDS concluded that certain material weaknesses existed in its internal control over financial reporting. See Part I Item 4 Controls and Procedures.

For the convenience of the reader, this Form 10-Q/A sets for the Original Form 10-Q, as amended hereby, in its entirety. However, this Form 10-Q/A amends and restates only Items 1, 2, and 4 of Part I and Item 6 of Part II of the Original From 10-Q, in each case solely as a result of and to reflect the adjustments discussed above and more fully in Note 1 of the accompanying financial statements, and no other information in the Original Form 10-Q is amended hereby. The foregoing items have not been updated to reflect other events occurring after the filing of the Original Form 10-Q, or to modify or update those disclosures affected by other subsequent events. In particular, forward-looking statements included in the Form 10-Q/A represented management s views as of the date of filing of the Original Form 10-Q for the quarter ended March 31, 2005 on May 4, 2005. Such forward-looking statements should not be assumed to be accurate as of any future date. TDS undertakes no duty to update such information whether as a result of new information, future events or otherwise.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by TDS s principal executive officer and principal financial officer are being filed with this Form 10-Q/A as Exhibits 31.1, 31.2, 32.1 and 32.2.

TELEPHONE AND DATA SYSTEMS, INC.

1ST QUARTER REPORT ON FORM 10-Q/A

AMENDMENT NO. 1

INDEX

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,	
	2005 (As Restated)	2004 (As Restated)
	(Dollars in thousands, except per share amounts)	
OPERATING REVENUES	$ 935,787	$ 870,098
OPERATING EXPENSES		
Cost of services and products (exclusive of depreciation, amortization and accretion expense shown below)	338,624	321,079
Selling, general and administrative expense	348,571	322,053
Depreciation, amortization and accretion expense	169,748	156,197
Gain on assets held for sale		(143)
Total Operating Expenses	856,943	799,186
OPERATING INCOME	78,844	70,912
INVESTMENT AND OTHER INCOME (EXPENSE)		
Investment income	14,754	14,127
Interest and dividend income	8,286	2,772
Interest expense	(51,856)	(46,821)
Gain on investments	500	
Other expense	(4,321)	(392)
Total Investment and Other Income (Expense)	(32,637)	(30,314)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	46,207	40,598
Income tax expense	17,395	18,730
INCOME BEFORE MINORITY INTEREST	28,812	21,868
Minority share of income	(5,763)	(3,614)
NET INCOME	23,049	18,254
Preferred dividend requirement	(50)	(50)
NET INCOME AVAILABLE TO COMMON	$ 22,999	$ 18,204
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	57,500	57,168
BASIC EARNINGS PER SHARE (Note 6)	$ 0.40	$ 0.32
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	57,823	57,424
DILUTED EARNINGS PER SHARE (Note 6)	$ 0.40	$ 0.32
DIVIDENDS PER SHARE	$ 0.175	$ 0.165

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

	Three Months Ended March 31, 2005 (As Restated)	2004 (As Restated)
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 23,049	$ 18,254
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	169,748	156,197
Deferred income taxes	960	15,018
Investment income	(14,754)	(14,127)
Distributions from unconsolidated entities	1,520	3,683
Minority share of income	5,763	3,614
Gain on assets held for sale		(143)
Gain on investments	(500)	
Bad debts expense	8,135	11,507
Noncash interest expense	5,029	7,078
Other noncash expense	3,685	3,621
Changes in assets and liabilities		
Change in accounts receivable	9,620	6,715
Change in materials and supplies	7,482	15,398
Change in accounts payable	(64,793)	(74,957)
Change in customer deposits and deferred revenues	3,844	6,980
Change in accrued taxes	21,868	6,438
Change in other assets and liabilities	(30,497)	(49,850)
	150,159	115,426
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(134,787)	(127,143)
Cash received from sale of assets		96,932
Acquisitions, net of cash acquired	(120,924)	(40,367)
Other investing activities	(564)	(2,599)
	(256,275)	(73,177)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of notes payable	165,000	230,000
Issuance of long-term debt	112,588	
Repayment of notes payable	(60,000)	(145,000)
Repayment of long-term debt	(127,710)	(5,128)
Repurchase of TDS Common shares		(8,399)
Proceeds from stock issued for benefit plans	13,520	13,200
Dividends paid	(10,122)	(9,503)
Other financing activities	131	(515)
	93,407	74,655
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,709)	116,904
CASH AND CASH EQUIVALENTS -		
Beginning of period	1,171,105	940,578

End of period	$	1,158,396	$	1,057,482

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

Unaudited

	March 31, 2005 (As Restated)	December 31, 2004 (As Restated)
	(Dollars in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	$ 1,158,396	$ 1,171,105
Accounts receivable		
Due from customers, less allowance of $12,980 and $14,317, respectively	296,768	304,851
Other, principally connecting companies, less allowance of $3,638 and $3,170, respectively	125,336	134,458
Deferred income tax asset	40,505	43,867
Materials and supplies, at average cost	83,020	91,556
Other current assets	60,760	71,877
	1,764,785	1,817,714
INVESTMENTS		
Marketable equity securities	3,042,028	3,398,804
Licenses	1,358,725	1,228,801
Goodwill	843,377	843,387
Customer lists, net of accumulated amortization of $36,930 and $34,630, respectively,	22,615	24,915
Investments in unconsolidated entities	213,820	199,518
Other investments, less valuation allowance of $55,144 in both periods	22,397	23,039
	5,502,962	5,718,464
PROPERTY, PLANT AND EQUIPMENT, NET		
U.S. Cellular	2,429,759	2,440,720
TDS Telecom	928,851	945,762
Corporate and other	31,674	32,962
	3,390,284	3,419,444
OTHER ASSETS AND DEFERRED CHARGES	57,058	56,981
TOTAL ASSETS	$ 10,715,089	$ 11,012,603

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS EQUITY

Unaudited

	March 31, 2005 (As Restated)	December 31, 2004 (As Restated)
	(Dollars in thousands)	
CURRENT LIABILITIES		
Current portion of long-term debt	$ 15,106	$ 38,787
Notes payable	135,000	30,000
Accounts payable	262,756	327,497
Customer deposits and deferred revenues	123,040	119,196
Accrued taxes	79,500	63,184
Accrued compensation	42,006	71,707
Other current liabilities	81,349	79,100
	738,757	729,471
DEFERRED LIABILITIES AND CREDITS		
Net deferred income tax liability	1,481,565	1,488,655
Derivative liability	863,530	1,210,500
Other deferred liabilities and credits	223,280	220,206
	2,568,375	2,919,361
LONG-TERM DEBT		
Long-term debt, excluding current portion	1,987,229	1,974,599
Forward contracts	1,693,981	1,689,644
	3,681,210	3,664,243
MINORITY INTEREST IN SUBSIDIARIES	512,646	499,468
PREFERRED SHARES	3,864	3,864
COMMON STOCKHOLDERS EQUITY (Note 2)		
Common Shares, par value $.01 per share; authorized 100,000,000 shares; issued 56,403,000 and 56,377,000 shares, respectively	564	564
Special Common Shares, par value $.01 per share; authorized 20,000,000 shares, no shares issued or outstanding		
Series A Common Shares, par value $.01 per share; authorized 25,000,000 shares; issued and outstanding 6,425,000 and 6,421,000 shares; respectively	64	64
Additional paid-in capital	1,819,090	1,822,541
Treasury Shares, at cost:		
Common Shares, 5,278,000 and 5,362,000 shares, respectively;	(439,038)	(449,173)
Accumulated other comprehensive income	365,287	370,857
Retained earnings	1,464,270	1,451,343

		3,210,237		3,196,196
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	10,715,089	$	11,012,603

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

6

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 81.7%-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. All material intercompany accounts and transactions have been eliminated.

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, although TDS believes that the disclosures 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 latest annual report on Form 10-K/A (See discussion of Restatement below).

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, 2005, and the results of operations for the three months ended March 31, 2005 and 2004 and the cash flows for the three months ended March 31, 2005 and 2004. The results of operations for the three months ended March 31, 2005, are not necessarily indicative of the results to be expected for the full year.

Certain amounts reported in the prior year have been reclassified to conform to current period presentation. The reclassifications had no impact on previously reported net income, financial condition or cash flows.

Restatement

TDS and its audit committee concluded on November 9, 2005, that TDS would amend its Annual Report on Form 10-K for the year ended December 31, 2004 to restate its financial statements and financial information for each of the three years in the period ended December 31, 2004 including interim quarterly information for 2004 and 2003, and certain selected financial data for the years 2001 and 2000. TDS and its audit committee also concluded that TDS would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2005 and June 30, 2005 to restate the financial statements and financial information included therewith.

On November 11, 2005, TDS and U.S. Cellular announced that the staff of the Midwest Regional Office of the Securities and Exchange Commission (SEC) had advised both companies that it was conducting an investigation into the restatement of financial statements announced by TDS and U.S. Cellular on November 10, 2005. TDS and U.S. Cellular intend to cooperate fully with the SEC staff in this investigation.

7

The restatement adjustments principally correct items that were recorded in the financial statements previously but not in the proper periods and certain income tax, interest income and consolidation errors. Correction of the errors, with the exception of income taxes discussed below, individually did not have a material impact on income before income taxes and minority interest, net income or earnings per share; however, when aggregated, the items were considered to be material. The restatement adjustments to correct income tax accounting had a material impact individually on net income and earnings per share in prior periods. The restated financial statements are adjusted to record certain obligations in the periods such obligations were incurred, correct the timing of the reversal of certain tax liabilities, correct the consolidation of an 80% owned subsidiary, and record revenues in the periods such revenues were earned. The adjustments are described below.

Income taxes In the restatement, TDS corrected its income tax expense, federal and state taxes payable, liabilities accrued for tax contingencies, deferred income tax assets and liabilities and related disclosures for the first quarter of 2005 and the years ended December 31, 2004, 2003 and 2002 for items identified based on a reconciliation of income tax accounts. The reconciliation compared amounts used for financial reporting purposes to the amounts used in the preparation of the income tax returns, and took into consideration the results of federal and state income tax audits and the resulting book/tax basis differences which generate deferred tax assets and liabilities. In addition, a review of the state deferred income tax rates used to establish deferred income tax assets and liabilities identified errors in the state income tax rate used which resulted in adjustments to correct the amount of deferred income tax assets and liabilities recorded for temporary differences between the timing of when certain transactions are recognized for financial and income tax reporting.

Federal universal service fund (USF) contributions In 2004 and 2003, Universal Service Administrative Company (USAC) billings to U.S. Cellular for USF contributions were based on estimated revenues reported to USAC by U.S. Cellular in accordance with USAC s established procedures. However, U.S. Cellular s actual liability for USF is based upon its actual revenues and USAC s established procedures provide a method to adjust U.S. Cellular s estimated liability to its actual liability. In the first six months of 2005 and the full years of 2004 and 2003, U.S. Cellular s actual revenues exceeded estimated revenues reported to USAC on an interim basis. As a result, additional amounts were due to USAC in 2005 and 2004 based on U.S. Cellular s annual report filings. Such additional amounts were incorrectly expensed when the invoices were received from USAC rather than at the time the obligation was incurred. In the third quarter of 2005, U.S. Cellular corrected its accounting for USF contributions to record expense reflecting the estimated obligation incurred based on actual revenues reported during the period. Accordingly, in the restatement, TDS has adjusted previously reported USF contributions expense by U.S. Cellular to reflect the estimated liability incurred during the period.

Customer contract termination fees In the fourth quarter of 2003, U.S. Cellular revised its business practices related to the billing of contract termination fees charged when a customer disconnected service prior to the end of the customer s contract. This change resulted in an increase in amounts billed to customers and revenues even though a high percentage of the amounts billed were deemed uncollectible. At the time of the change in business practice, U.S. Cellular incorrectly recorded revenues related to such fees at the time of billing, as generally accepted accounting principles (GAAP) would preclude revenue recognition if the receivable is not reasonably assured of collection. In the first quarter of 2005, U.S. Cellular corrected its accounting to record revenues related to such fees only upon collection, in recognition of the fact that the collectibility of the revenues was not reasonably assured at the time of billing. In the restatement, TDS made adjustments to properly reflect U.S. Cellular s revenues for such fees upon collection beginning on October 1, 2003.

8

Leases and contracts   TDS and U.S. Cellular had entered into certain operating leases (as both lessee and lessor) that provide for specific scheduled increases in payments over the lease term. In the third quarter of 2004, TDS made adjustments for the cumulative effect which were not considered to be material to either that quarter or to prior periods to correct its accounting and recognize revenues and expenses under such agreements on a straight-line basis over the term of the lease in accordance with Statement of Financial Accounting Standards (SFAS   ) No. 13,   Accounting for Leases,   as amended, and related pronouncements. In addition, the accounting for certain other long-term contracts, for which a cumulative effect adjustment was made in the first quarter of 2005, was corrected to recognize expenses in the appropriate periods. The restatement adjustments reverse the cumulative amounts previously recorded in the third quarter of 2004 and the first quarter of 2005, and properly record such revenues and expenses on a straight-line basis in the appropriate periods.

Promotion rebates   From time to time, U.S. Cellular   s sales promotions include rebates on sales of handsets to customers. In such cases, U.S. Cellular reduces revenues and records a liability at the time of sale reflecting an estimate of rebates to be paid under the promotion. Previously, the accrued liability was not adjusted on a timely basis upon expiration of the promotion to reflect the actual amount of rebates paid based upon information available at the date the financial statements were issued. In the restatement, TDS has corrected revenues and accrued liabilities to reflect the impacts associated with promotion rebates in the appropriate periods.

Operations of consolidated partnerships managed by a third party   Historically, U.S. Cellular recorded the results of operations of certain consolidated partnerships managed by a third party on an estimated basis, and adjusted such estimated results to the actual results upon receipt of financial statements in the following quarter. However, GAAP requires that the actual amounts be used. In the restatement, TDS has corrected its financial statements to recognize results of operations in the appropriate period based on the partnerships   actual results of operations reported for such periods.

Investment income from entities accounted for by the equity method   Historically, U.S. Cellular recorded an estimate each quarter of its proportionate share of net income (loss) from certain entities accounted for by the equity method, and adjusted such estimate to the actual share of net income (loss) upon receipt of financial statements in the following quarter. However, GAAP requires that the actual amounts be used. In the restatement, TDS has corrected its financial statements to recognize investment income in the appropriate period based on the entities   actual net income (loss) reported for such periods.

Historically, TDS had not fully consolidated its 80%-owned subsidiary, Suttle Straus, to present the operating results of such subsidiary in revenues, cost of service, selling, general and administrative expenses and depreciation. Previously, the net operating results of the subsidiary were included in other income (expense). However, the non-operating portion of the income statement of Suttle Straus was properly presented. The restatement correctly consolidates the results of Suttle Straus. Also, property, plant and equipment was corrected to properly include Suttle Straus   fixed assets. Previously, the balances were included in other assets and deferred charges. In addition, certain intercompany elimination entries between TDS, U.S. Cellular, TDS Telecom and Suttle Straus have been recorded.

Revenue and cost of service accruals TDS Telecom reviewed accruals in the first and second quarter of 2004 and determined that an adjustment was required to record unbilled revenue related to its competitive local exchange carrier that were not previously recorded. TDS Telecom also reduced cost of service accruals related to long-distance service as a result of shifting long-distance traffic to a second provider. In the restatement, the adjustments reverse the cumulative amounts previously recorded in the first and second quarters of 2004, and record such revenues and expenses in the appropriate periods.

Consolidated statements of cash flows In the restatement, the classification of cash distributions received from unconsolidated entities has been corrected to properly reflect cash received, which represents a return on investment in the unconsolidated entities, as cash flows from operating activities; previously, the cash received on such investments was classified as cash flows from investing activities. Also, the classification of certain noncash stock-based compensation expense has been corrected to properly reflect such noncash expense as an adjustment to cash flows from operating activities; previously, such expense was classified as cash flows from financing activities.

Interest income In the restatement, TDS corrected its accounting for recording interest income earned by its subsidiaries through a cash management agreement for the first quarter ended 2005 and the years ended December 31, 2004, 2003 and 2002. TDS subsidiaries participating in the cash management agreement had not recorded an accrual to increase cash and interest income for their portion of the interest income earned. The correcting entries increased cash and interest income for each period presented.

Other items In addition to the adjustments described above, TDS recorded a number of other adjustments to correct and record revenues and expenses in the periods in which such revenues and expenses were earned or incurred. These adjustments were not significant, either individually or in aggregate.

The table below summarizes the impacts of the restatement on income before income taxes and minority interest.

	Three Months Ended March 31, 2005		2004	
	(Increase (decrease) dollars in thousands)			
Income Before Income Taxes and Minority Interest, as previously reported	$	41,943	$	43,345
Federal universal service fund contributions		(1,431)		1,591
Customer contract termination fees		3,468		(151)
Leases and contracts		2,238		(397)
Promotion rebates		(446)		
Operations of consolidated partnerships managed by a third party		(454)		270
Investment income from entities accounted for by the equity method		522		(504)
Revenue and cost of service accruals				(3,166)
Interest income		478		(116)
Other items		(111)		(274)
Total adjustment		4,264		(2,747)
Income Before Income Taxes and Minority Interest, as restated	$	46,207	$	40,598

The table below summarizes the net income and earnings per share impacts from the restatement.

	Three Months Ended March 31, 2005				2004			
	Net Income (loss)		Diluted Earnings Per Share		Net Income (loss)		Diluted Earnings Per Share	
	(Increase (decrease) dollars in thousands, except per share amounts)							
As previously reported	$	20,545	$	0.35	$	19,732	$	0.34
Federal universal service fund contributions		(678)		(0.01)		762		0.01
Customer contract termination fees		1,590		0.03		(70)		
Leases and contracts		1,110		0.02		(156)		
Promotion rebates		(204)						
Operations of consolidated partnerships managed by a third party		(164)				98		
		258				(250)		

Investment income from entities accounted for by the equity method								
Revenue and cost of service accruals						(1,915)		(0.03)
Income taxes		360		0.01		250		
Interest income		289				(70)		
Other items		(57)				(127)		
Total adjustment		2,504		0.05		(1,478)		(0.02)
As restated	$	23,049	$	0.40	$	18,254	$	0.32

The table below summarizes the effects of consolidating Suttle Straus and recording certain intercompany eliminations as previously discussed.

	Three Months Ended March 31, 2005		Three Months Ended March 31, 2004	
	Adjustment for Suttle Straus	Intercompany Eliminations	Adjustment for Suttle Straus	Intercompany Eliminations
	(Increase/(decrease) dollars in thousands)			
Operating Revenue	$ 7,808	$ (2,941)	$ 6,260	$ (2,281)
Operating Expenses				
Cost of service and products	5,549	290	4,216	221
Selling, general and Administrative	1,416	(3,231)	1,196	(2,502)
Depreciation, amortization and accretion	688		621	
Total Operating Expenses	7,653	(2,941)	6,033	(2,281)
Operating Income	155		227	
Other income (expense), net	(155)		(227)	
Total Investment and Other Income (Expense)	(155)		(227)	
Income Before Income Taxes and Minority Interest	$	$	$	$

The effect of the restatement on the previously reported Consolidated Statements of Operations is as follows:

	Three Months Ended March 31,			
	2005		2004	
	As Previously Reported	As Restated	As Previously Reported	As Restated
	(Dollars in thousands, except per share amounts)			
Operating Revenues	$ 928,166	$ 935,787	$ 870,512	$ 870,098
Operating Expenses				
Cost of service and products (exclusive of depreciation, amortization and accretion shown separately below)	333,864	338,624	311,393	321,079
Selling, general and administrative expense	350,045	348,571	330,643	322,053
Depreciation, amortization and accretion expense	168,817	169,748	155,452	156,197
(Gain) loss on assets held for sale			(143)	(143)
Total Operating Expenses	852,726	856,943	797,345	799,186
Operating Income	75,440	78,844	73,167	70,912
Investment and Other Income (Expense)				
Investment income	14,233	14,754	14,630	14,127
Interest and dividend income	7,819	8,286	2,896	2,772
Gain (loss) on investments	500	500		
Interest expense	(51,856)	(51,856)	(46,821)	(46,821)
Other income (expense), net	(4,193)	(4,321)	(527)	(392)
Total Investment and Other Income (Expense)	(33,497)	(32,637)	(29,822)	(30,314)

Income (Loss) before Income Taxes and Minority Interest		41,943		46,207		43,345		40,598
Income tax expense (benefit)		16,148		17,395		20,105		18,730
Income (Loss) before Minority Interest		25,795		28,812		23,240		21,868
Minority share of income		(5,250)		(5,763)		(3,508)		(3,614)
Net Income (Loss)		20,545		23,049		19,732		18,254
Preferred dividend requirement		(50)		(50)		(50)		(50)
Net Income (Loss) Available to Common	$	20,495	$	22,999	$	19,682	$	18,204
Basic Earnings per Share	$	0.36	$	0.40	$	0.34	$	0.32
Diluted Earnings per Share	$	0.35	$	0.40	$	0.34	$	0.32

The effect of the restatement on the previously reported Consolidated Statements of Cash Flows is as follows:

	Three Months Ended March 31,			
	2005 As Previously Reported	2005 As Restated	2004 As Previously Reported	2004 As Restated
	(Dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 20,545	$ 23,049	$ 19,732	$ 18,254
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities				
Depreciation, amortization and accretion	168,817	169,748	155,452	156,197
Deferred income taxes	(287)	960	16,392	15,018
Investment income	(14,233)	(14,754)	(14,630)	(14,127)
Distributions from unconsolidated entities		1,520		3,683
Minority share of income	5,250	5,763	3,508	3,614
Gain on assets held for sale			(143)	(143)
Gain on investments	(500)	(500)		
Bad debts expense		8,135		11,507
Noncash interest expense	5,029	5,029	7,078	7,078
Other noncash expense	4,317	3,685	4,182	3,621
Changes in assets and liabilities				
Change in accounts receivable	19,414	9,620	16,358	6,715
Change in materials and supplies	7,482	7,482	15,398	15,398
Change in accounts payable	(66,467)	(64,793)	(77,818)	(74,957)
Change in customer deposits and deferred revenues	3,573	3,844	7,273	6,980
Change in accrued taxes	21,618	21,868	6,438	6,438
Change in other assets and liabilities	(26,937)	(30,497)	(48,327)	(49,850)
	147,621	150,159	110,893	115,426
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	(133,340)	(134,787)	(125,626)	(127,143)
Cash received from sale of assets			96,932	96,932
Acquisitions, net of cash acquired	(120,924)	(120,924)	(40,367)	(40,367)
Distributions from unconsolidated entities	1,520		3,683	
Other investing activities	(1,490)	(564)	(3,362)	(2,599)
	(254,234)	(256,275)	(68,740)	(73,177)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of notes payable	165,000	165,000	230,000	230,000
Issuance of long-term debt	112,588	112,588		
Repayment of notes payable	(60,000)	(60,000)	(145,000)	(145,000)
Repayment of long-term debt	(127,710)	(127,710)	(5,128)	(5,128)
Repurchase of TDS Common shares			(8,399)	(8,399)
Proceeds from stock issued for benefit plans	13,576	13,520	13,261	13,200
Dividends paid	(10,122)	(10,122)	(9,503)	(9,503)
Other financing activities	131	131	(515)	(515)
	93,463	93,407	74,716	74,655
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,150)	(12,709)	116,869	116,904

CASH AND CASH EQUIVALENTS-								
Beginning of period		1,168,581		1,171,105		937,651		940,578
End of period	$	1,155,431	$	1,158,396	$	1,054,520	$	1,057,482

The effect of the restatement on the previously reported Consolidated Balance Sheets is as follows:

	March 31, 2005 As Previously Reported	March 31, 2005 As Restated	December 31, 2004 As Previously Reported	December 31, 2004 As Restated
	(Dollars in thousands)			
CURRENT ASSETS				
Cash and cash equivalents	$ 1,155,431	$ 1,158,396	$ 1,168,581	$ 1,171,105
Accounts receivable				
Due from customers,	296,770	296,768	308,410	304,851
Other, principally connecting companies	124,442	125,336	131,665	134,458
Deferred income tax asset	32,679	40,505	36,040	43,867
Materials and supplies, at average cost	83,020	83,020	91,556	91,556
Other current assets	61,548	60,760	73,965	71,877
	1,753,890	1,764,785	1,810,217	1,817,714
INVESTMENTS				
Marketable equity securities	3,042,028	3,042,028	3,398,804	3,398,804
Licenses	1,358,725	1,358,725	1,228,801	1,228,801
Goodwill	823,249	843,377	823,259	843,387
Customer lists, net of accumulated amortization	22,615	22,615	24,915	24,915
Investments in unconsolidated entities	220,553	213,820	206,763	199,518
Other investments	22,397	22,397	23,039	23,039
	5,489,567	5,502,962	5,705,581	5,718,464
PROPERTY, PLANT AND EQUIPMENT				
U.S. Cellular	2,428,470	2,429,759	2,439,719	2,440,720
TDS Telecom	928,851	928,851	945,762	945,762
Corporate and other		31,674		32,962
	3,357,321	3,390,284	3,385,481	3,419,444
OTHER DEFERRED CHARGES	91,340	57,058	92,562	56,981
TOTAL ASSETS	$ 10,692,118	$ 10,715,089	$ 10,993,841	$ 11,012,603

	March 31, 2005 As Previously Reported	March 31, 2005 As Restated	December 31, 2004 As Previously Reported	December 31, 2004 As Restated
	(Dollars in thousands)			
CURRENT LIABILITIES				
Current portion of long-term debt	$ 15,106	$ 15,106	$ 38,787	$ 38,787
Notes payable	135,000	135,000	30,000	30,000
Accounts payable	256,840	262,756	323,256	327,497
Customer deposits and deferred revenues	122,952	123,040	119,380	119,196
Accrued taxes	93,016	79,500	76,266	63,184
Accrued compensation	42,006	42,006	71,707	71,707
Other current liabilities	83,570	81,349	81,927	79,100
	748,490	738,757	741,323	729,471
DEFERRED LIABILITIES AND CREDITS				
Net deferred income tax liability	1,458,205	1,481,565	1,466,649	1,488,655
Derivative liability	863,530	863,530	1,210,500	1,210,500
Other deferred liabilities and credits	222,454	223,280	217,208	220,206
	2,544,189	2,568,375	2,894,357	2,919,361
LONG-TERM DEBT				
Long-term debt, excluding current portion	1,987,229	1,987,229	1,974,599	1,974,599
Forward contracts	1,693,981	1,693,981	1,689,644	1,689,644
	3,681,210	3,681,210	3,664,243	3,664,243
MINORITY INTEREST IN SUBSIDIARIES	511,992	512,646	499,306	499,468
PREFERRED SHARES	3,864	3,864	3,864	3,864
COMMON STOCKHOLDERS EQUITY				
Common Shares, par value $.01 per share	564	564	564	564
Special Common Shares, par value $.01 per share				
Series A Common Shares, par value $.01 per share	64	64	64	64
Additional paid-in capital	1,819,710	1,819,090	1,823,161	1,822,541
Treasury Shares, at cost:				
Common Shares	(439,038)	(439,038)	(449,173)	(449,173)
Accumulated other comprehensive income	368,022	365,287	373,505	370,857
Retained earnings	1,453,051	1,464,270	1,442,627	1,451,343
	3,202,373	3,210,237	3,190,748	3,196,196
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 10,692,118	$ 10,715,089	$ 10,993,841	$ 11,012,603

2. Stock Dividend

On February 17, 2005, the TDS Board unanimously approved, and on April 11, 2005, the TDS shareholders approved an amendment (the Amendment) to the Restated Certificate of Incorporation of TDS to increase the authorized number of Special Common Shares of TDS from 20,000,000 to 165,000,000. Following such approval, the Amendment was filed with the Secretary of State of Delaware and became effective on April 11, 2005.

On February 17, 2005, the TDS Board also approved a distribution of one Special Common Share in the form of a stock dividend with respect to each outstanding Common Share and Series A Common Share of TDS (the Distribution), which will be effective May 13, 2005 to shareholders of record on April 29, 2005.

The Special Common Shares have a par value of $0.01. In the election of directors, the holders of Special Common Shares will vote together with the holders of Common Shares in the election of 25% of the directors (rounded up) plus one director (or four directors based on a board of twelve directors). Each Special Common Share will be entitled to one vote in the election of such directors. Other than the election of such directors, the Special Common Shares will have no votes except as otherwise required by law. Subject to the satisfaction of all Preferred Share dividend preferences, the holders of Special Common Shares will be entitled to receive the same dividend on a per share basis as the Common Shares and Series A Common Shares. The Special Common Shares are not convertible into any other class of common stock or any other security of TDS. Series A Common Shares are convertible on a share-for-share basis into either Common Shares or Special Common Shares.

Upon effectiveness of the stock dividend, prior periods earnings per share will be retroactively adjusted to give effect to the new capital structure. The tables below summarize the (i) pro forma number of shares to be distributed on the Common, Series A Common and Treasury shares; (ii) the pro forma effect on the March 31, 2005 balance sheet; and (iii) unaudited pro forma earnings per share data for the year ended December 31, 2004 and the quarterly results for 2004 and 2005.

	Shares outstanding as of March 31, 2005 (In thousands)
Common Shares (1)	51,125
Series A Common Shares	6,425
Treasury Shares - Common	5,278
Special Common Shares to be distributed	62,828

(1) Excludes 5,277,869 Common Shares held by TDS as treasury shares and 484,012 Common Shares held by a subsidiary of TDS.

	March 31, 2005 As Reported(1)	**March 31, 2005 Pro forma**
COMMON STOCKHOLDERS EQUITY		
Common Shares, par value $.01 per share; authorized 100,000,000 shares; issued 56,403,000 shares	$ 564	$ 564
Special Common Shares, par value $.01 per share; authorized 20,000,000 and 165,000,000 shares, respectively; 62,828,000 shares to be issued		628
Series A Common Shares, par value $.01 per share; authorized 25,000,000 shares; issued and outstanding 6,425,000 shares	64	64
Additional paid-in capital	1,819,090	1,819,090
Treasury Shares, at cost:		
Common Shares, 5,278,000 shares	(439,038)	(219,519)
Special Common Shares, 5,278,000 shares to be issued		(219,519)
Accumulated other comprehensive income	365,287	365,287
Retained earnings	1,464,270	1,463,642
	$ 3,210,237	$ 3,210,237

	Year Ended December 31,					
	2004		**2003**		**2002**	
	As Reported(1)	**Pro Forma**	**As Reported(1)**	**Pro Forma**	**As Reported(1)**	**Pro Forma**
Basic Earnings per Share:						

Income (loss) from continuing operations	$	1.05	$	0.53	$	0.78	$	0.38	$	(16.26)	$	(8.13)
Discontinued operations		0.11		0.05		(0.03)		(0.01)				
Cumulative effect of accounting change						(0.20)		(0.10)		(0.12)		(0.06)
Net income (loss) available to common	$	1.16	$	0.58	$	0.55	$	0.27	$	(16.38)	$	(8.19)
Diluted Earnings per Share:												
Income (loss) from continuing operations	$	1.04	$	0.52	$	0.77	$	0.38	$	(16.26)	$	(8.13)
Discontinued operations		0.11		0.05		(0.03)		(0.01)				
Cumulative effect of accounting change						(0.20)		(0.10)		(0.12)		(0.06)
Net income (loss) available to common	$	1.15	$	0.57	$	0.54	$	0.27	$	(16.38)	$	(8.19)

	Quarter Ended							
	March 31, 2004		June 30, 2004		September 30, 2004		December 31, 2004	
	As Reported(1)	Pro Forma	As Reported(1)	Pro Forma	As Reported(1)	Pro Forma	As Reported(1)	Pro Forma
Basic Earnings per Share:								
Income (loss) from continuing operations	$ 0.32	$ 0.16	$ 0.65	$ 0.33	$ 0.68	$ 0.34	$ (0.60)	$ (0.30)
Discontinued operations					0.08	0.04	0.04	0.02
Net income (loss) available to common	$ 0.32	$ 0.16	$ 0.65	$ 0.33	$ 0.76	$ 0.38	$ (0.56)	$ (0.28)
Diluted Earnings per Share:								
Income (loss) from continuing operations	$ 0.32	$ 0.16	$ 0.65	$ 0.32	$ 0.67	$ 0.33	$ (0.60)	$ (0.30)
Discontinued operations					0.08	0.04	0.04	0.02
Net income (loss) available to common	$ 0.32	$ 0.16	$ 0.65	$ 0.32	$ 0.75	$ 0.37	$ (0.56)	$ (0.28)

	Quarter Ended March 31, 2005	
	As Reported (1)	Pro Forma
Basic Earnings per Share:		
Net income available to common	$ 0.40	$ 0.20
Diluted Earnings per Share:		
Net income available to common	$ 0.40	$ 0.20

(1) The As Reported earnings per share amounts reflect the restatement adjustments as disclosed in Note 1.

3. Summary of Significant Accounting Policies

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,	
	2005	2004

	(Dollars in thousands)	
Service Cost	$ 553	$ 591
Interest on accumulated benefit obligation	659	665
Expected return on plan assets	(558)	(337)
Amortization of:		
Prior service cost	(279)	(179)
Net loss	288	237
Net postretirement cost	$ 663	$ 977

TDS has contributed $5.3 million to the postretirement plan assets during 2005.

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 $3.4 million and $3.1 million for the three months ended March 31, 2005 and March 31, 2004, respectively.

TDS also sponsors an unfunded non-qualified deferred supplemental executive retirement plan to supplement the benefits under the qualified plan to offset the reduction of benefits caused by the limitation on annual employee compensation under the tax laws.

Stock-Based Compensation

TDS accounts for stock options, stock appreciation rights and employee stock purchase plans under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees as allowed by SFAS No. 123, Accounting for Stock-Based Compensation.

No compensation costs have been recognized for stock options in 2005 and 2004 because, under TDS s stock option plans, the option exercise price for each grant is equal to the quoted stock price at the grant date. No compensation costs have been recognized for employee stock purchase plans because the purchase price is not less than 85 percent of the fair market value of the stock at the purchase date.

Had compensation cost for all plans been determined consistent with SFAS No. 123, TDS s net income available to common and earnings per share would have been reduced to the following pro forma amounts:

	Three Months Ended March 31,			
	2005 (As Restated)		2004 (As Restated)	
	(Dollars in thousands, except per share amounts)			
Net Income Available to Common				
As reported	$	22,999	$	18,204
Pro forma expense		(2,315)		(2,362)
Pro forma net income available to common	$	20,684	$	15,842
Basic Earnings per Share				
As reported	$	0.40	$	0.32
Pro forma expense per share		(0.04)		(0.04)
Pro forma basic earnings per share	$	0.36	$	0.28
Diluted Earnings per Share				
As reported	$	0.40	$	0.32
Pro forma expense per share		(0.04)		(0.04)
Pro forma diluted earnings per share	$	0.36	$	0.28

Recent Accounting Pronouncements

Share-Based Payments

SFAS No. 123 (revised 2004), Share-Based Payment, was issued in December 2004 and becomes effective for TDS in the first quarter of 2006. The statement requires that compensation cost resulting from all share-based payment transactions be recognized in the financial statements. TDS has reviewed the provisions of this statement and expects to record compensation expense for certain share-based payment transactions, primarily related to stock options, in the Statement of Operations upon adoption of this standard. See the Stock-Based Compensation disclosure above for a pro forma impact on net income and earnings per share.

Conditional Asset Retirement Obligations

FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations was issued in March 2005. It is effective no later than December 31, 2005. This Interpretation clarifies that the term conditional asset retirement obligation as used in SFAS No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FASB Interpretation No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. TDS is currently reviewing the requirement of this Interpretation and has not yet determined the impact, if any, on TDS s financial position or results of operations.

4. Income Taxes

The following table summarizes the effective income tax expense (benefit) rates in each of the periods:

	Three Months Ended March 31, 2005 (As Restated)	Three Months Ended March 31, 2004 (As Restated)
Effective Income Tax (Benefit) Rate From:		
Operations excluding gain on assets held for sale	37.7%	39.9%
Gain on assets held for sale (1)		N/M
Income before income taxes and minority interest	37.7%	46.1%

N/M Not Meaningful

(1) The effective tax rate in the first quarter of 2004 related to the provision for Gain on assets held for sale is not meaningful. Because of the impact on the income tax provision of the completion of the sale of assets to AT&T Wireless Services, Inc. (AT&T Wireless) in February 2004, it was necessary for TDS to record a tax provision of $2.6 million at the time of this sale. However, book pretax income in the first quarter of 2004 reflected a $143,000 gain on assets held for sale, which was an adjustment of the $22.0 million loss on assets held for sale recorded in the fourth quarter of 2003 when the sale transaction was announced.

5. Earnings per Share

Basic earnings per share is computed by dividing net income available to common by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed using net income available to common and weighted average number of shares of common stock adjusted to include the effect of potentially dilutive securities. Potentially dilutive securities include incremental shares issuable upon exercise of outstanding stock options and the potential conversion of Preferred Shares into Common and Special Common Shares.

The amounts used in computing earnings per share and the effect on income and the weighted average number of shares of dilutive potential common stock are as follows:

	Three Months Ended March 31, 2005 (As Restated)	Three Months Ended March 31, 2004 (As Restated)
	(Dollars and shares in thousands, except earnings per share)	
Basic Earnings per Share:		
Net income	$ 23,049	$ 18,254
Preferred dividend requirement	(50)	(50)
Net income available to common used in basic earnings per share	$ 22,999	$ 18,204
Diluted Earnings per Share:		

Net income available to common used in basic earnings per share	$	22,999	$	18,204
Minority income adjustment (1)		(132)		(50)
Net income available to common used in diluted earnings per share	$	22,867	$	18,154
Weighted average number of shares of Common Stock used in basic earnings per share		57,500		57,168
Effects of Dilutive Securities:				
Effects of stock options (2)		323		256
Conversion of preferred shares (3)				
Weighted average number of shares of Common Stock used in diluted earnings per share		57,823		57,424
Basic Earnings per Share	$	0.40	$	0.32
Diluted Earnings per Share	$	0.40	$	0.32

(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) Stock options convertible into 680,683 Common Shares were not included in computing Diluted Earnings per Share in the three months ended March 31, 2005, because their effects were antidilutive. Stock options convertible into 709,031 Common Shares were not included in computing Diluted Earnings per Share in the three months ended March 31, 2004 because their effects were antidilutive.

(3) Preferred shares convertible into 74,666 Common Shares were not included in computing Diluted Earnings per Share in the three months ended March 31, 2005, because their effects were antidilutive. Preferred shares convertible into 74,238 Common Shares were not included in computing Diluted Earnings per Share in the three months ended March 31, 2004 because their effects were antidilutive.

6. Marketable Equity Securities

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. 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 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. 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.

TDS and its subsidiaries have entered into a number of forward contracts related to the marketable equity securities that they hold. The 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 thereby eliminating the risk of an other-than-temporary loss being recorded on these contracted securities (See Note 11-Revolving Credit Facilities and Forward Contracts).

Information regarding TDS s marketable equity securities is summarized as follows:

	March 31, 2005 (As Restated)	December 31, 2004 (As Restated)
	(Dollars in thousands)	
Marketable Equity Securities		
Deutsche Telekom AG - 131,461,861 Ordinary Shares	$ 2,626,608	$ 2,960,521
Vodafone Group Plc 12,945,915 American Depositary Receipts	343,844	354,459
VeriSign, Inc. - 2,361,333 Common Shares	67,770	79,341
Rural Cellular Corporation - 719,396 equivalent Common Shares	3,805	4,482
Other	1	1
Aggregate fair value	3,042,028	3,398,804
Accounting cost basis	1,543,677	1,543,677
Gross unrealized holding gains	1,498,351	1,855,127
Equity method unrealized gains	261	261
Income tax (expense)	(590,795)	(732,179)
Minority share of unrealized holding gains	(13,125)	(13,987)
Unrealized holding gains, net of tax and minority share	894,692	1,109,222
Derivative instruments, net of tax and minority share	(529,405)	(738,365)
Accumulated other comprehensive income	$ 365,287	$ 370,857

7. Goodwill

TDS has substantial amounts of goodwill as a result of the acquisition of wireless markets, and the acquisition of operating telephone companies. The changes in goodwill for the three months ended March 31, 2005 and 2004, were as follows. TDS Telecom s incumbent local exchange carriers are designated as ILEC and its competitive local exchange carrier is designated as CLEC in the table.

(Dollars in thousands)		U.S. Cellular (As Restated)		TDS Telecom ILEC (As Restated)		CLEC (1)		Other (2) (As Restated)		Total (As Restated)
Balance December 31, 2004	$	445,212	$	395,894	$		$	2,281	$	843,387
Acquisitions										
Other Adjustments		(10)								(10)
Balance March 31, 2005	$	445,202	$	395,894	$		$	2,281	$	843,377
Balance December 31, 2003	$	449,550	$	395,894	$	29,440	$	33,181	$	908,065
Acquisitions		3,649								3,649
Other		(655)								(655)
Balance March 31, 2004	$	452,544	$	395,894	$	29,440	$	33,181	$	911,059

(1) In December 2004, TDS Telecom concluded that the CLEC goodwill was impaired, and recorded a $29.4 million loss on impairment of intangible assets. This reduced the goodwill balance to zero.

(2) Other consists of goodwill related to Suttle Straus and an investment in a cellular market owned by an ILEC subsidiary. This investment was sold to ALLTEL in November 2004.

8. Unconsolidated Entities

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

Significant investments in TDS s unconsolidated entities include the following:

	March 31, 2005	March 31, 2004
Los Angeles SMSA Limited Partnership	5.5%	5.5%
Raleigh-Durham MSA Limited Partnership (1)		8.0%
Midwest Wireless Communications, LLC	15.2%	15.2%
North Carolina RSA 1 Partnership	50.0%	50.0%
Oklahoma City SMSA Limited Partnership	14.6%	14.6%

(1) As a result of an agreement with ALLTEL, U.S. Cellular s investment in this partnership was sold to ALLTEL on November 30, 2004.

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, 2005 (as restated)	Three Months Ended March 31, 2004 (as restated)
	(Dollars in thousands)	
Results of operations		
Revenues	$ 784,000	$ 705,000
Operating expenses	544,000	498,000
Operating income	240,000	207,000
Other income (expense), net	7,000	1,000
Net Income	$ 247,000	$ 208,000

20

9. Customer Lists

Customer lists, intangible assets from the acquisition of wireless properties, are being amortized based on average customer retention periods using the declining balance method. The acquisition of certain minority interests in the first quarter of 2004 added $12.9 million to the gross balance of customer lists. Amortization expense was $2.3 million and $3.1 million for the first quarter of 2005 and 2004, respectively. Amortization expense for the remainder of 2005 and for the years 2006-2009 is expected to be $5.9 million, $5.4 million, $3.6 million, $2.4 million and $1.6 million, respectively.

10. Property, Plant and Equipment

U.S. Cellular reviews the useful lives of its property, plant and equipment, including leasehold improvements, annually during the first quarter. The useful lives of all leasehold improvements range from three to ten years; for leasehold improvements related to cell site leases entered into in 2005, the useful life was changed to four years, compared to ten years on leasehold improvements related to cell site leases entered into prior to 2005. This change better approximates the shorter of the assets economic lives or the specific lease terms.

TDS Telecom reviewed the useful lives of its property, plant and equipment in the first quarter of 2005. There were no changes made to useful lives of TDS Telecom assets.

11. Revolving Credit Facilities and Forward Contracts

TDS has a $600 million revolving credit facility available for general corporate purposes. At March 31, 2005, this credit facility had $596.6 million available for use, net of $3.4 million of outstanding letters of credit. This credit facility expires in December 2009. Borrowings bear interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on TDS s credit rating. At March 31, 2005, the contractual spread was 30 basis points (the one-month LIBOR rate was 2.87% at March 31, 2005). Under certain circumstances, with less than two days notice of intent to borrow, interest on borrowings are at the prime rate less 50 basis points (the prime rate was 5.75% at March 31, 2005).

TDS also has $75 million of direct bank lines of credit at March 31, 2005, all of which were unused. The terms of the direct lines of credit provide for borrowings at negotiated rates up to the prime rate (the prime rate was 5.75% at March 31, 2005).

U.S. Cellular has a $700 million revolving credit facility available for general corporate purposes. At March 31, 2005, this credit facility had $564.8 million available for use, net of borrowings of $135.0 million and outstanding letters of credit of $0.2 million. This credit facility expires in December of 2009. Borrowings bear interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on U.S. Cellular s credit rating. At March 31, 2005, the contractual spread was 30 basis points (the one-month LIBOR rate was 2.87% at March 31, 2005). Under certain circumstances, with less than two days notice of intent to borrow, interest on borrowings are at the prime rate less 50 basis points (the prime rate was 5.75% at March 31, 2005).

As disclosed in Note 1, TDS and its audit committee concluded on November 9, 2005 to restate the Consolidated Financial Statements as of and for the three years ended December 31, 2004 and the first and second quarters of 2005. The restatement resulted in defaults under the revolving credit agreements, one line of credit agreement and certain of 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 credit agreements or forward contracts. TDS and U.S. Cellular received waivers from the lenders associated with the credit agreements and from the counterparty to such forward contracts, under which the lenders and the counterparty agreed to waive any defaults that may have occurred as a result of the restatement.

12. Asset Retirement Obligation

U.S. Cellular is subject to asset retirement obligations associated primarily with its cell sites, retail sites and office locations. Legal obligations include obligations to remediate leased land on which U.S. Cellular s cell sites and switching offices are located. U.S. Cellular is also required to return leased retail store premises and office space to their pre-existing conditions. U.S. Cellular determined that it had an obligation to remove long-lived assets in its cell sites, retail sites and office locations as described by SFAS No. 143, Accounting for Asset Retirement Obligations, and has recorded a liability, which is included in Other deferred liabilities and credits on the Balance Sheet, and related asset retirement obligation accretion expense, reflected in depreciation, amortization and accretion expense in the Statement of Operations. The asset retirement obligation, included in Other deferred liabilities and credits, calculated in accordance with the provisions of SFAS No. 143 at March 31, 2005 was $75.0 million.

TDS Telecom s incumbent local exchange carriers have recorded an asset retirement obligation in accordance with the requirements of SFAS No. 143 and a regulatory liability for the costs of removal that state public utility commissions have required to be recorded for regulatory accounting purposes which are in excess of the amounts required to be recorded in accordance with SFAS No. 143. These amounts combined make up the asset retirement obligation amounts shown on the Balance Sheet. The asset retirement obligation calculated in accordance with the provisions of SFAS No. 143 at March 31, 2005 was $34.3 million. The regulatory liability in excess of the amounts required to be recorded in accordance with SFAS No. 143 at March 31, 2005 was $31.9 million.

TDS Telecom s competitive local exchange carrier does not have a material legal obligation to remove long-lived assets as described by SFAS No. 143. TDS Telecom is reviewing FASB Interpretation No. 47 to determine the impact, if any, on the competitive local exchange carrier operations.

The table below summarizes the changes in asset retirement obligations during the three months ended March 31, 2005.

	U.S. Cellular (As Restated)	TDS Telecom	TDS Consolidated (As Restated)
		(Dollars in thousands)	
Beginning Balance December 31, 2004	$ 72,575	$ 65,000	$ 137,575
Additional liabilities accrued	678	1,467	2,145
Accretion expense	1,792		1,792
Costs of removal incurred in 2005		(227)	(227)
Ending Balance March 31, 2005	$ 75,045	$ 66,240	$ 141,285

13. Long-Term Debt

On March 31, 2005, TDS issued $116.25 million in aggregate principal amount of unsecured 6.625% senior notes due March 31, 2045. Interest on the notes is payable quarterly. TDS may redeem the notes, in whole or in part, at any time on and after March 31, 2010, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. The net proceeds from this offering, after deducting underwriting discounts, were approximately $112.6 million.

On March 31, 2005, TDS Telecom subsidiaries repaid approximately $105.6 million in principal amount of notes to the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB) plus accrued interest of $0.6 million. TDS Telecom subsidiaries paid prepayment penalties of $0.6 million associated with these repayments. Unamortized debt issuance costs related to the notes totaling $0.1 million were expensed and included in other income (expense), net in the Statement of Operations. The RUS and RTB debt, held at individual TDS Telecom ILEC companies, had a weighted average interest rate of 5.5% and maturity of approximately 12 years.

TDS redeemed $17.2 million of medium-term notes in January and February of 2005 which carried interest rates of 9.25 9.35%.

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 such minority interests that meet the standard s definition of mandatorily redeemable financial instruments. These mandatorily redeemable minority interests represent interests held by third parties in consolidated partnerships and limited liability companies (LLCs), where the terms of the underlying partnership or LLC agreement provide for a defined termination date at which time the assets of the subsidiary are to be sold, the liabilities are to be extinguished and the remaining net proceeds are to be distributed to the minority interest holders and TDS in accordance with the respective partnership and LLC agreements. The termination dates of TDS s mandatorily redeemable minority interests range from 2042 to 2103.

The settlement value of TDS s mandatorily redeemable minority interests is estimated to be $114.1 million at March 31, 2005. 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 LLCs on March 31, 2005, net of estimated liquidation costs. This amount is being disclosed pursuant to the requirements of FSP No. FAS 150-3; TDS has no current plans or intentions to liquidate any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the minority interests in finite-lived consolidated partnerships and LLCs at March 31, 2005 is $30.7 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 $83.4 million is primarily due to the unrecognized appreciation of the minority interest holders share of the underlying net assets in the consolidated partnerships and LLCs. Neither the minority interest holders share, nor TDS 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. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount.

15. Common Share Repurchase Programs

In 2003, the Board of Directors of TDS authorized the repurchase of up to 3.0 million TDS Common Shares through February 2006. As market conditions warrant, TDS may repurchase Common Shares on the open market or at negotiated prices in private transactions, at prices approximating then existing market prices. TDS may use repurchased shares to fund acquisitions and for other corporate purposes.

No TDS Common Shares were repurchased in the first quarter of 2005. As of March 31, 2005, shares remaining available for repurchase under this authorization totaled 824,300. In the three months ended March 31, 2004, TDS repurchased 40,300 Common Shares under this authorization for an aggregate purchase price of $2.8 million, representing an average per share price of $69.82, including commissions. An additional $5.6 million was paid in January 2004 to settle repurchases that occurred at the end of December 2003.

U.S. Cellular s primary repurchase program expired in December 2003. However, U.S. Cellular has an ongoing authorization to repurchase a limited amount of U.S. Cellular Common Shares on a quarterly basis, primarily for use in employee benefit plans. No U.S. Cellular Common Shares were repurchased in the first quarter of 2005 or 2004.

16. Acquisitions, Divestitures and Exchanges

First Quarter 2005 Activity

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 spectrum which was available only to companies that fall under the FCC definition of designated entities, which are small businesses that have a limited amount of assets. Carroll Wireless was a successful bidder for 17 licensed areas in Auction 58, which ended on February 15, 2005. The aggregate amount due to the FCC for the 17 licenses is $129.9 million, net of all bidding credits to which Carroll Wireless is entitled as a designated entity. These 17 licensed areas cover portions of 11 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas.

In March 2005, Carroll Wireless increased the amount on deposit with the FCC to $129.9 million, from $9 million initially deposited in 2004, and filed an application with the FCC seeking a grant of the subject licenses. TDS expects that the FCC will grant the licenses in the second quarter of 2005. The $129.9 million deposited with the FCC is included in licenses on the Balance Sheet. U.S. Cellular consolidates Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless, for financial reporting purposes, pursuant to the guidelines of Financial Accounting Standards Board (FASB) Interpretation No. 46R (FIN 46R), as U.S. Cellular anticipates absorbing a majority of Carroll Wireless expected gains or losses.

Carroll Wireless is in the process of developing its long-term business and financing plans. As of March 31, 2005, U.S. Cellular has made capital contributions and advances to Carroll Wireless and/or its general partner of approximately $130 million. Pending finalization of Carroll Wireless permanent financing plan, and upon request by Carroll Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Carroll Wireless and/or its general partner; however, U.S. Cellular has not entered into any commitments to provide Carroll Wireless with any financing beyond the $130 million it has provided to date.

In the first quarter of 2005, TDS adjusted the gain on investments related to its sale to ALLTEL of certain wireless properties on November 30, 2004. The adjustment increased the total gain on investment from this transaction by $0.5 million due to a working capital adjustment which was finalized in the first quarter of 2005 related to the entities sold in which TDS previously owned a noncontrolling investment interest.

First Quarter 2004 Activity

On February 18, 2004, U.S. Cellular completed the sale of certain of its wireless properties in southern Texas to AT&T Wireless for $96.9 million in cash, subject to a working capital adjustment. The U.S. Cellular markets sold to AT&T Wireless included wireless assets and customers in six cellular markets. An aggregate loss of $21.3 million (including a $22.0 million estimate of the loss on assets held for sale in the fourth quarter of 2003 and subsequent $0.1 million and $0.6 million reductions of the loss in the first and second quarters of 2004, respectively) was recorded as a loss on assets held for sale (included in operating expenses), representing the difference between the carrying value of the markets sold to AT&T Wireless and the cash received in the transaction. The results of operations of the markets sold to AT&T Wireless were included in results of operations through February 17, 2004.

In the first quarter of 2004 U.S. Cellular purchased certain minority interests in several wireless markets in which it already owned a controlling interest for $40.4 million in cash. These acquisitions increased investment in licenses, goodwill and customer lists by $2.7 million, $3.6 million and $12.9 million, respectively, in the first quarter of 2004.

17. Accumulated Other Comprehensive Income

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

	Three Months Ended March 31, 2005 (As Restated)	2004 (As Restated)
	(Dollars in thousands)	
Marketable Equity Securities		
Balance, beginning of period	$ 1,109,222	$ 732,904
Add (deduct):		
Unrealized losses on marketable equity securities	(356,776)	(50,429)
Income tax benefit	141,384	19,616
	(215,392)	(30,813)
Minority share of unrealized losses	862	1,315
Net change in unrealized losses on marketable equity securities in comprehensive income	(214,530)	(29,498)
Balance, end of period	$ 894,692	$ 703,406
Derivative Instruments		
Balance, beginning of period	$ (738,365)	$ (438,086)
Add (deduct):		
Unrealized loss on derivative instruments	347,018	98,045
Income tax benefit	(137,683)	(38,509)
	209,335	59,536
Minority share of unrealized losses	(375)	(1,381)
Net change in unrealized losses on derivative instruments included in comprehensive income	208,960	58,155
Balance, end of period	$ (529,405)	$ (379,931)
Accumulated Other Comprehensive Income		
Balance, beginning of period	$ 370,857	$ 294,818
Net change in marketable equity securities	(214,530)	(29,498)
Net change in derivative instruments	208,960	58,155
Net change in unrealized gains (losses) included in comprehensive income	(5,570)	28,657
Balance, end of period	$ 365,287	$ 323,475

	Three Months Ended March 31, 2005 (As Restated)	2004 (As Restated)
	(Dollars in thousands)	
Comprehensive Income		
Net Income	$ 23,049	$ 18,254
Net change in unrealized gains (losses) included in comprehensive income	(5,570)	28,657
	$ 17,479	$ 46,911

25

18. Business Segment Information

Financial data for TDS s business segments for the three month period ended or at March 31, 2005 and 2004 are as follows. TDS Telecom s incumbent local exchange carriers are designated as ILEC in the table and its competitive local exchange carrier is designated as CLEC .

Three Months Ended or at March 31, 2005 (As Restated) (Dollars in thousands)	U.S. Cellular	TDS Telecom ILEC	CLEC	Other (3)	Other Reconciling Items (1)	Total
Operating revenues	$ 711,071	$ 161,843	$ 59,267	$ 7,808	$ (4,202)	$ 935,787
Cost of services and products	265,719	43,739	24,124	5,549	(507)	338,624
Selling, general and administrative expense	278,330	43,258	29,262	1,416	(3,695)	348,571
Operating income before depreciation, amortization and accretion (2)	167,022	74,846	5,881	843		248,592
Depreciation, amortization and accretion expense	127,493	34,264	7,303	688		169,748
Operating income (loss)	39,529	40,582	(1,422)	155		78,844
Significant noncash items:						
Investment income	14,440	175			139	14,754
Gain (loss) on investments	551	(51)				500
Marketable equity securities	274,079				2,767,949	3,042,028
Investment in unconsolidated entities	169,634	19,896			24,290	213,820
Total assets	5,255,595	1,728,560	147,760	25,623	3,557,551	10,715,089
Capital expenditures	$ 112,775	$ 16,142	$ 4,214	$ 915	$ 741	$ 134,787

Three Months Ended or at March 31, 2004 (As Restated) (Dollars in thousands)	U.S. Cellular	TDS Telecom ILEC	CLEC	Other (3)	Other Reconciling Items (1)	Total
Operating revenues	$ 653,175	$ 159,201	$ 54,736	$ 6,260	$ (3,274)	$ 870,098
Cost of services and products	259,426	37,751	20,047	4,216	(361)	321,079
Selling, general and administrative expense	250,793	43,487	29,490	1,196	(2,913)	322,053
Operating income before depreciation, amortization and accretion, and (gain) loss on assets held for sale (2)	142,956	77,963	5,199	848		226,966
Depreciation, amortization and accretion expense	114,018	32,547	9,011	621		156,197
(Gain) loss on assets held for sale	(143)					(143)

Operating income (loss)	29,081	45,416	(3,812)	227		70,912
Significant noncash items:						
Investment income	13,784	175			168	14,127
Marketable equity securities	248,403				2,473,582	2,721,985
Investment in unconsolidated entities	169,917	19,780			24,739	214,436
Total assets	4,858,601	1,813,716	236,618	22,201	3,222,867	10,154,003
Capital expenditures	$ 101,459	$ 17,616	$ 6,456	$ 593	$ 1,019	$ 127,143

---

(1) Consists of the TDS Corporate operations, intercompany and intracompany revenue and expense eliminations, TDS Corporate and TDS Telecom marketable equity securities and all other businesses not included in the U.S. Cellular, TDS Telecom, or Other segments.

(2) The amount of operating income before depreciation, amortization and accretion (and (gain) loss on assets held for sale in 2004) is a non-GAAP financial measure. The amount may also be commonly referred to by management as operating cash flow. TDS has presented operating cash flow because this financial measure, in combination with other financial measures, is an integral part of our internal reporting system utilized by management to assess and evaluate the performance of its business. Operating cash flow is also considered a significant performance measure. It is used by management as a measurement of its success in obtaining, retaining and servicing customers by reflecting its ability to generate subscriber revenue while providing a high level of customer service in a cost effective manner. The components of operating cash flow include the key revenue and expense items for which operating managers are responsible and upon which TDS evaluates its performance.

Other companies in the wireless industry may define operating cash flow in a different manner or present other varying financial measures, and, accordingly, TDS s presentation may not be comparable to other similarly titled measures of other companies.

Operating cash flow should not be construed as an alternative to operating income (loss), as determined in accordance with GAAP, as an alternative to cash flows from operating activities, as determined in accordance with GAAP, or as a measure of liquidity. TDS believes operating cash flow is useful to investors as a means to evaluate TDS s operating performance prior to non-cash depreciation and amortization expense, and certain other non-cash charges. Although operating cash flow may be defined differently by other companies in the wireless industry, TDS believes that operating cash flow provides some commonality of measurement in analyzing operating performance of companies in the wireless industry.

(3) Represents Suttle Straus.

	Three Months Ended March 31,			
		2005 (As Restated)		2004 (As Restated)
	(Dollars in thousands)			
Total operating income from reportable and other segments	$	78,844	$	70,912
Total Investment and other income (expense)		(32,637)		(30,314)
Income before income taxes and minority interest	$	46,207	$	40,598

19. Commitments and Contingencies

Indemnifications

TDS enters into agreements in the normal course of business that provide for indemnification of counterparties. These 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 regarding certain contingent liabilities at Aerial Communications for the period prior to Aerial s merger into VoiceStream Wireless. As of March 31, 2005, TDS has recorded liabilities of $9.3 million relating to this indemnity.

Legal Proceedings

TDS is involved in a number of legal proceedings before the FCC and various state and federal courts. If TDS believes that a loss arising from such legal proceedings is probable and can be reasonably estimated, an amount is accrued in the financial statements for the estimated loss. If only a range of loss can be determined, the best estimate within that range is accrued; if none of the estimates within that range is better than another, the low end of the range is accrued. The assessment of 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 the accruals and related financial statement disclosure. The ultimate settlement of proceedings may differ materially from amounts accrued in the financial statements.

Regulatory Environment

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

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

Telephone and Data Systems, Inc. (TDS - AMEX symbol: TDS) is a diversified telecommunications company providing high-quality telecommunications services to approximately 6.3 million wireless telephone customers and wireline telephone equivalent access lines. TDS conducts substantially all of its wireless telephone operations through its 81.7%-owned subsidiary, United States Cellular Corporation (U.S. Cellular), its incumbent local exchange carrier and competitive local exchange carrier wireline telephone operations through its wholly owned subsidiary, TDS Telecommunications Corporation (TDS Telecom) and its printing and distribution operations through its 80%-owned subsidiary, Suttle Straus, Inc.

The following discussion and analysis should be read in conjunction with TDS s interim consolidated financial statements and footnotes included herein, and with TDS s audited consolidated financial statements and footnotes and Management s Discussion and Analysis of Financial Condition and Results of Operations included in TDS s Annual Report on Form 10-K/A for the year ended December 31, 2004.

Restatement

TDS and its audit committee concluded on November 9, 2005, that TDS would amend its Annual Report on Form 10-K for the year ended December 31, 2004 to restate its financial statements and financial information for each of the three years in the period ended December 31, 2004 including interim quarterly information for 2004 and 2003, and certain selected financial data for the years 2001 and 2000. TDS and its audit committee also concluded that TDS would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2005 and June 30, 2005 to restate the financial statements and financial information included therewith.

On November 11, 2005, TDS and U.S. Cellular announced that the staff of the Midwest Regional Office of the Securities and Exchange Commission (SEC) had advised both companies that it was conducting an investigation into the restatement of financial statements announced by TDS and U.S. Cellular on November 10, 2005. TDS and U.S. Cellular intend to cooperate fully with the SEC staff in this investigation.

The restatement adjustments principally correct items that were recorded in the financial statements previously but not in the proper periods and certain income tax, interest income and consolidation errors. Correction of the errors, with the exception of income taxes discussed below, individually did not have a material impact on income before income taxes and minority interest, net income or earnings per share; however, when aggregated, the items were considered to be material. The restatement adjustments to correct income tax accounting had a material impact individually on net income and earnings per share in prior periods. The restated financial statements are adjusted to record certain obligations in the periods such obligations were incurred, correct the timing of the reversal of certain tax liabilities, correct the consolidation of an 80% owned subsidiary, and record revenues in the periods such revenues were earned. The adjustments are described below.

Income taxes In the restatement, TDS corrected its income tax expense, federal and state taxes payable, liabilities accrued for tax contingencies, deferred income tax assets and liabilities and related disclosures for the first quarter of 2005 and the years ended December 31, 2004, 2003 and 2002 for items identified based on a reconciliation of income tax accounts. The reconciliation compared amounts used for financial reporting purposes to the amounts used in the preparation of the income tax returns, and took into consideration the results of federal and state income tax audits and the resulting book/tax basis differences which generate deferred tax assets and liabilities. In addition, a review of the state deferred income tax rates used to establish deferred income tax assets and liabilities identified errors in the state income tax rate used which resulted in adjustments to correct the amount of deferred income tax assets and liabilities recorded for temporary differences between the timing of when certain transactions are recognized for financial and income tax reporting.

Federal universal service fund (USF) contributions In 2004 and 2003, Universal Service Administrative Company (USAC) billings to U.S. Cellular for USF contributions were based on estimated revenues reported to USAC by U.S. Cellular in accordance with USAC s established procedures. However, U.S. Cellular s actual liability for USF is based upon its actual revenues and USAC s established procedures provide a method to adjust U.S. Cellular s estimated liability to its actual liability. In the first six months of 2005 and the full years of 2004 and 2003, U.S. Cellular s actual revenues exceeded estimated revenues reported to USAC on an interim basis. As a result, additional amounts were due to USAC in 2005 and 2004 based on U.S. Cellular s annual report filings. Such additional amounts were incorrectly expensed when the invoices were received from USAC rather than at the time the obligation was incurred. In the third quarter of 2005, U.S. Cellular corrected its accounting for USF contributions to record expense reflecting the estimated obligation incurred based on actual revenues reported during the period. Accordingly, in the restatement, TDS has adjusted previously reported USF contributions expense by U.S. Cellular to reflect the estimated liability incurred during the period.

Customer contract termination fees In the fourth quarter of 2003, U.S. Cellular revised its business practices related to the billing of contract termination fees charged when a customer disconnected service prior to the end of the customer s contract. This change resulted in an increase in amounts billed to customers and revenues even though a high percentage of the amounts billed were deemed uncollectible. At the time of the change in business practice, U.S. Cellular incorrectly recorded revenues related to such fees at the time of billing, as generally accepted accounting principles (GAAP) would preclude revenue recognition if the receivable is not reasonably assured of collection. In the first quarter of 2005, U.S. Cellular corrected its accounting to record revenues related to such fees only upon collection, in recognition of the fact that the collectibility of the revenues was not reasonably assured at the time of billing. In the restatement, TDS made adjustments to properly reflect U.S. Cellular s revenues for such fees upon collection beginning on October 1, 2003.

Leases and contracts TDS and U.S. Cellular had entered into certain operating leases (as both lessee and lessor) that provide for specific scheduled increases in payments over the lease term. In the third quarter of 2004, TDS made adjustments for the cumulative effect which were not considered to be material to either that quarter or to prior periods to correct its accounting and recognize revenues and expenses under such agreements on a straight-line basis over the term of the lease in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases, as amended, and related pronouncements. In addition, the accounting for certain other long-term contracts, for which a cumulative effect adjustment was made in the first quarter of 2005, was corrected to recognize expenses in the appropriate periods. The restatement adjustments reverse the cumulative amounts previously recorded in the third quarter of 2004 and the first quarter of 2005, and properly record such revenues and expenses on a straight-line basis in the appropriate periods.

Promotion rebates From time to time, U.S. Cellular s sales promotions include rebates on sales of handsets to customers. In such cases, U.S. Cellular reduces revenues and records a liability at the time of sale reflecting an estimate of rebates to be paid under the promotion. Previously, the accrued liability was not adjusted on a timely basis upon expiration of the promotion to reflect the actual amount of rebates paid based upon information available at the date the financial statements were issued. In the restatement, TDS has corrected revenues and accrued liabilities to reflect the impacts associated with promotion rebates in the appropriate periods.

Operations of consolidated partnerships managed by a third party Historically, U.S. Cellular recorded the results of operations of certain consolidated partnerships managed by a third party on an estimated basis, and adjusted such estimated results to the actual results upon receipt of financial statements in the following quarter. However, GAAP requires that the actual amounts be used. In the restatement, TDS has corrected its financial statements to recognize results of operations in the appropriate period based on the partnerships actual results of operations reported for such periods.

Investment income from entities accounted for by the equity method Historically, U.S. Cellular recorded an estimate each quarter of its proportionate share of net income (loss) from certain entities accounted for by the equity method, and adjusted such estimate to the actual share of net income (loss) upon receipt of financial statements in the following quarter. However, GAAP requires that the actual amounts be used. In the restatement, TDS has corrected its financial statements to recognize investment income in the appropriate period based on the entities actual net income (loss) reported for such periods.

Historically, TDS had not fully consolidated its 80%-owned subsidiary, Suttle Straus, to present the operating results of such subsidiary in revenues, cost of service, selling, general and administrative expenses and depreciation. Previously, the net operating results of the subsidiary were included in other income (expense). However, the non-operating portion of the income statement of Suttle Straus was properly presented. The restatement correctly consolidates the results of Suttle Straus. Also, property, plant and equipment was corrected to properly include Suttle Straus fixed assets. Previously, the balances were included in other assets and deferred charges. In addition, certain intercompany elimination entries between TDS, U.S. Cellular, TDS Telecom and Suttle Straus have been recorded.

Revenue and cost of service accruals TDS Telecom reviewed accruals in the first and second quarter of 2004 and determined that an adjustment was required to record unbilled revenue related to its competitive local exchange carrier that were not previously recorded. TDS Telecom also reduced cost of service accruals related to long-distance service as a result of shifting long-distance traffic to a second provider. In the restatement, the adjustments reverse the cumulative amounts previously recorded in the first and second quarters of 2004, and record such revenues and expenses in the appropriate periods.

Consolidated statements of cash flows In the restatement, the classification of cash distributions received from unconsolidated entities has been corrected to properly reflect cash received, which represents a return on investment in the unconsolidated entities, as cash flows from operating activities; previously, the cash received on such investments was classified as cash flows from investing activities. Also, the classification of certain noncash stock-based compensation expense has been corrected to properly reflect such noncash expense as an adjustment to cash flows from operating activities; previously, such expense was classified as cash flows from financing activities.

Interest income In the restatement, TDS corrected its accounting for recording interest income earned by its subsidiaries through a cash management agreement for the first quarter of 2005 and the years ended December 31, 2004, 2003 and 2002. TDS subsidiaries participating in the cash management agreement had not recorded an accrual to increase cash and interest income for their portion of the interest income earned. The correcting entries increased cash and interest income for each period presented.

Other items In addition to the adjustments described above, TDS recorded a number of other adjustments to correct and record revenues and expenses in the periods in which such revenues and expenses were earned or incurred. These adjustments were not significant, either individually or in aggregate.

The table below summarizes the impacts of the restatement on income before income taxes and minority interest.

	Three Months Ended March 31,	
	2005	**2004**

	(Increase (decrease) dollars in thousands)	
Income Before Income Taxes and Minority Interest, as previously reported	$ 41,943	$ 43,345
Federal universal service fund contributions	(1,431)	1,591
Customer contract termination fees	3,468	(151)
Leases and contracts	2,238	(397)
Promotion rebates	(446)	
Operations of consolidated partnerships managed by a third party	(454)	270
Investment income from entities accounted for by the equity method	522	(504)
Revenue and cost of service accruals		(3,166)
Interest income	478	(116)
Other items	(111)	(274)
Total adjustment	4,264	(2,747)
Income Before Income Taxes and Minority Interest, as restated	$ 46,207	$ 40,598

The table below summarizes the net income and earnings per share impacts from the restatement.

	Three Months Ended March 31, 2005 Net Income (loss)	2005 Diluted Earnings Per Share	2004 Net Income (loss)	2004 Diluted Earnings Per Share
	(Increase (decrease) dollars in thousands, except per share amounts)			
As previously reported	$ 20,545	$ 0.35	$ 19,732	$ 0.34
Federal universal service fund contributions	(678)	(0.01)	762	0.01
Customer contract termination fees	1,590	0.03	(70)	
Leases and contracts	1,110	0.02	(156)	
Promotion rebates	(204)			
Operations of consolidated partnerships managed by a third party	(164)		98	
Investment income from entities accounted for by the equity method	258		(250)	
Revenue and cost of service accruals			(1,915)	(0.03)
Income taxes	360	0.01	250	
Interest income	289		(70)	
Other items	(57)		(127)	
Total adjustment	2,504	0.05	(1,478)	(0.02)
As restated	$ 23,049	$ 0.40	$ 18,254	$ 0.32

The table below summarizes the effects of consolidating Suttle Straus and recording certain intercompany eliminations as previously discussed.

	Three Months Ended March 31, 2005 Adjustment for Suttle Straus	Three Months Ended March 31, 2005 Intercompany Eliminations	Three Months Ended March 31, 2004 Adjustment for Suttle Straus	Three Months Ended March 31, 2004 Intercompany Eliminations
	(Increase/(decrease) dollars in thousands)			
Operating Revenue	$ 7,808	$ (2,941)	$ 6,260	$ (2,281)
Operating Expenses				
Cost of service and products	5,549	290	4,216	221
Selling, general and Administrative	1,416	(3,231)	1,196	(2,502)
Depreciation, amortization and accretion	688		621	
Total Operating Expenses	7,653	(2,941)	6,033	(2,281)
Operating Income	155		227	
Other income (expense), net	(155)		(227)	
Total Investment and Other Income (Expense)	(155)		(227)	
Income Before Income Taxes and Minority Interest	$	$	$	$

31

OVERVIEW

The following is a summary of certain selected information from the complete management discussion that follows the overview and does not contain all of the information that may be important. You should carefully read this entire Management s Discussion and Analysis of Financial Condition and Results of Operations and not rely solely on the overview.

Results of Operations

U.S. Cellular U.S. Cellular positions itself as a regional operator, focusing its efforts on providing wireless service to customers in the geographic areas where it has licenses to provide such service. U.S. Cellular differentiates itself from its competitors through a customer satisfaction strategy, reflecting broad product distribution, a customer service focus and a high-quality wireless network.

U.S. Cellular s business development strategy is to operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular s operating strategy is to strengthen the geographic areas where it can continue to build long-term operating synergies and to exit those areas where it does not have opportunities to build such synergies.

U.S. Cellular s operating income in the three months ended March 31, 2005 increased $10.4 million, or 36%, to $39.5 million from $29.1 million in 2004. The operating income margins (as a percent of service revenues) were 5.9% in 2005 and 4.7% in 2004. Although operating income and margins improved in 2005, TDS expects that there will be pressure on U.S. Cellular s operating income and margins in the next few years related to the following factors:

- costs of customer acquisition and retention;
- effects of competition;
- increased customer use of its services;
- launching service in new areas;
- reduced inbound roaming revenues; and
- continued enhancements to its wireless networks.

The effects of these factors are expected to be mitigated to some extent by the following factors:

reduced per minute costs for usage on U.S. Cellular s network and for outbound roaming usage;

expansion of revenues from additional customers, data-related services and newly launched markets; and

reduced amortization expense as the customer list asset balances decline.

See U.S. Cellular Operations.

TDS Telecom TDS Telecom provides high-quality telecommunication services, including full-service local exchange service, long distance telephone service and Internet access, to rural, suburban and selected small urban area communities. TDS Telecom s business plan is designed for a full-service telecommunications company, including competitive local exchange carrier operations, by leveraging TDS Telecom s strength as an incumbent local exchange carrier. TDS Telecom is focused on achieving three central strategic objectives: growth, market leadership, and profitability. TDS Telecom s strategy includes gaining additional market share and deepening penetration of vertical services within established markets.

TDS Telecom s operating income in the three months ended March 31, 2005 decreased $2.4 million, or 6% to $39.2 million from $41.6 million in 2004. The operating income margins were 17.8% in 2005 and 19.5% in 2004. Despite the challenges faced in the industry, TDS Telecom was able to increase equivalent access lines in 2005 primarily through the increase in penetration of existing markets by its competitive local exchange operations.

See TDS Telecom Operations.

Financing Initiatives

TDS and its subsidiaries had cash and cash equivalents totaling $1,158.4 million, $1,161.4 million of revolving credit facilities available for use and an additional $75 million of bank lines of credit as of March 31, 2005. TDS and its subsidiaries are also generating substantial internal funds from operations. Cash flows from operating activities totaled $150.2 million in the three months ended March 31, 2005. In addition, TDS and its subsidiaries may have access to public and private capital markets to help meet their long-term financing needs. TDS anticipates that it may require funding over the next few years for capital expenditures, for the development of new wireless markets at U.S. Cellular and to further its growth in all markets. Management believes that cash on hand, expected future cash flows from operations and sources of external financing provide substantial financial flexibility and are sufficient to permit TDS and its subsidiaries to finance their contractual obligations and anticipated capital expenditures. TDS continues to seek to maintain a strong Balance Sheet and an investment grade credit rating.

On March 31, 2005, TDS issued $116.25 million in aggregate principal amount of unsecured 6.625% senior notes due March 31, 2045. Interest on the notes is payable quarterly. TDS may redeem the notes, in whole or in part, at any time on and after March 31, 2010, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. The net proceeds from this offering, after deducting underwriting discounts, were approximately $112.6 million.

On March 31, 2005, TDS Telecom subsidiaries repaid approximately $105.6 million in principal amount of notes to the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB) plus accrued interest of $0.6 million. TDS Telecom subsidiaries paid prepayment penalties of $0.6 million associated with these repayments. Unamortized debt issuance costs related to the notes totaling $0.1 million were expensed and included in other income (expense), net in the Statement of Operations.

See Financial Resources and Liquidity and Capital Resources.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004

Operating Revenues increased $65.7 million, or 8%, to $935.8 million during the three months ended March 31, 2005 from $870.1 million during the three months ended March 31, 2004, primarily as a result of a 12% increase in customers and equivalent access lines served. U.S. Cellular s operating revenues increased $57.9 million, or 9%, to $711.1 million in 2005 from $653.2 million in 2004 as customers served increased by 580,000, or 13%, since March 31, 2004, to 5,127,000. Of the 13% increase in customers since March 31, 2004, 613,000 were added through U.S. Cellular s marketing (including reseller) channels while 33,000 net customers were subtracted as a result of divestiture activities, primarily the divestiture to ALLTEL in November of 2004. TDS Telecom operating revenues increased $6.9 million, or 3%, to $219.8 million in 2005 from $212.9 million in 2004 as equivalent access lines increased by 70,800 or 6%, since March 31, 2004, to 1,172,000. An equivalent access line is derived by converting a high-capacity data line to an estimated equivalent number, in terms of capacity, of switched access lines.

Operating Expenses increased $57.7 million, or 7%, to $856.9 million in 2005 from $799.2 million in 2004 primarily reflecting growth in operations. U.S. Cellular s operating expenses increased $47.4 million, or 8%, to $671.5 million in 2005 from $624.1 million in 2004 primarily reflecting costs associated with acquiring customers and serving and retaining its expanding customer base. Telecom s expenses increased $9.4 million, or 6%, to $180.7 million in 2005 from $171.3 million in 2004 primarily reflecting increased cost of goods sold for digital subscriber lines and long distance services, and costs related to additional competitive local exchange carrier customers.

Operating Income increased $7.9 million, or 11%, to $78.8 million in 2005 from $70.9 million in 2004. The operating margin was 8.4% in 2005 and 8.2% in 2004 on a consolidated basis. U.S. Cellular s operating income increased $10.4 million, or 36%, to $39.5 million from $29.1 million in 2004 and its operating margin, as a percentage of service revenues, increased to 5.9% in 2005 from 4.7% in 2004. TDS Telecom s operating income decreased $2.4 million, or 6%, to $39.2 million in 2005 from $41.6 million in 2004 and its operating margin decreased to 17.8% in 2005 from 19.5% in 2004.

Investment and Other Income (Expense) primarily includes interest and dividend income, investment income, gains and losses on investments and interest expense. Investment and other income (expense) totaled $(32.6) million in 2005 and $(30.3) million in 2004.

Investment income increased $0.7 million, or 4%, to $14.8 million in 2005 from $14.1 million in 2004. Investment income represents TDS s share of income in unconsolidated entities in which TDS has a minority interest and follows the equity method of accounting. Los Angeles SMSA Limited Partnership continues to contribute a significant portion of the total investment income in 2005.

Interest and dividend income increased $5.5 million to $8.3 million in 2005 from $2.8 million in 2004 primarily due to higher average rates of interest earned on investments in 2005 than 2004.

Deutsche Telekom paid a dividend of EUR 0.62 per share in April 2005. Using a weighted-average exchange rate of $1.30 per EUR, TDS will record dividend income of $105.7 million, before taxes, in the second quarter of 2005.

Interest expense increased $5.1 million, or 11%, to $51.9 million in 2005 from $46.8 million in 2004 primarily due to interest expense on forward contracts being $4.6 million higher in the three months ended March 31, 2005 than in the same period of 2004 as a result of higher interest rates on variable rate forward contracts. Interest expense in the three months ended March 31, 2005 increased by $8.0 million from the issuances of 30-year 7.5% senior notes and 6.7% senior notes by U.S. Cellular in June 2004 but was largely offset by a $2.5 million and $4.6 million reduction of interest, respectively, from the redemptions of U.S. Cellular s Liquid Yield Option Notes in July 2004 and 7.25% senior notes in August 2004.

Gain on investments totaled a net gain of $0.5 million in 2005. The net gain reflects the working capital adjustment recorded on the investment interests sold by U.S. Cellular and TDS Telecom to ALLTEL in November 2004.

Other expense totaled $(4.3) million in 2005 and $(0.4) million in 2004. The VeriSign derivative resulted in a loss of $0.1 million in 2005 compared to a gain of $1.0 million in 2004. In 2005, TDS Telecom recorded a $0.6 million expense prepayment penalty on the repayment of debt as well as a $0.1 million write off of unamortized debt issuance costs.

Income Tax Expense decreased $1.3 million, or 7%, to $17.4 million in 2005 from $18.7 million in 2004 primarily due to a $2.6 million provision in 2004 recorded upon the completion of the sale of assets by U.S. Cellular to AT&T Wireless in February 2004. The effective tax rate was 37.7% in 2005 and was 46.1% in 2004. For further analysis and discussion of TDS s effective tax rates in 2005 and 2004, see Note 4 Income Taxes.

Minority Share of Income includes the minority public shareholders share of U.S. Cellular s net income, the minority shareholders or partners share of U.S. Cellular s subsidiaries net income or loss and other minority interests.

	Three Months Ended March 31, 2005 (As Restated)	Three Months Ended March 31, 2004 (As Restated)
	(Dollars in thousands)	
Minority Share of Income		
U.S. Cellular		
Minority Public Shareholders	$ (2,159)	$ (1,889)
Minority Shareholders or Partners	(3,578)	(1,728)
	(5,737)	(3,617)
Other	(26)	3
	$ (5,763)	$ (3,614)

Net Income Available to Common totaled $23.0 million, or $0.40 per diluted share, in 2005 and $18.2 million, or $0.32 per diluted share, in 2004.

U.S. CELLULAR OPERATIONS

TDS provides wireless telephone service through United States Cellular Corporation (U.S. Cellular), an 81.7%-owned subsidiary. U.S. Cellular owns, manages and invests in wireless markets throughout the United States. Growth in the customer base is the primary reason for the growth in U.S. Cellular s revenues and expenses. The number of customers served increased by 13% since March 31, 2004, to 5,127,000 from 4,547,000, due to customer additions from its marketing channels.

SUMMARY OF HOLDINGS

U.S. Cellular owned, or had the right to acquire pursuant to certain agreements, either majority or minority interests in 229 wireless markets as of March 31, 2005. A summary of the number of markets U.S. Cellular owns or has rights to acquire as of March 31, 2005 follows:

	Number of Markets
Consolidated markets (1)	175
Consolidated markets to be acquired pursuant to existing agreements (2)	30
Minority interests accounted for using equity method (3)	19
Minority interests accounted for using cost method (4)	5
Total markets to be owned after completion of pending transactions	229

(1) U.S. Cellular owns a controlling interest in each of these markets.

(2) U.S. Cellular owns rights to acquire controlling interests in 30 additional wireless licenses, 20 of which result from an acquisition agreement with AT&T Wireless Services, Inc. (AT&T Wireless), now Cingular Wireless LLC (Cingular), which closed in August 2003. U.S. Cellular has up to five years from the transaction closing date to exercise its rights to acquire the licenses. Carroll Wireless, L.P. (Carroll Wireless), an entity in which U.S. Cellular owns a controlling interest for financial reporting purposes, was the winning bidder of 17 wireless licenses in the auction of wireless spectrum designated by the Federal Communications Commission (FCC) as Auction 58. Of the 17 licenses for which it was the winning bidder, eight are in markets in which U.S. Cellular currently owns spectrum; the other nine markets represent markets which are incremental to U.S. Cellular s currently owned or acquirable markets. In a separate agreement, U.S. Cellular agreed to purchase a controlling interest in one license from Cingular. U.S. Cellular completed such purchase from Cingular on April 1, 2005.

(3) Represents licenses in which U.S. Cellular owns an interest that is not a controlling financial interest and which are accounted for using the equity method.

(4) Represents licenses in which U.S. Cellular owns an interest that is not a controlling financial interest and which are accounted for using the cost method.

RESULTS OF OPERATIONS

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

	Three Months Ended or At March 31, 2005 (As Restated)	Three Months Ended or At March 31, 2004 (As Restated)
As of March 31, (1a)		
Total market population (2)	44,576,000	45,581,000
Total customers (3)	5,127,000	4,547,000
Market penetration (4)	11.50%	9.98%
Total full-time equivalent employees	7,000	6,175
Cell sites in service	4,899	4,122
For the Three Months Ended March 31, (1b)		
Net customer additions (5)	182,000	196,000
Net retail customer additions (5)	123,000	144,000
Average monthly service revenue per customer (6)	$ 44.46	$ 45.83
Postpay churn rate per month (7)	1.5%	1.3%
Sales and marketing cost per gross customer addition (8)	$ 396	$ 371

(1a) Amounts in 2005 do not include (i) the six markets sold to AT&T Wireless in February 2004, or (ii) the two markets sold to ALLTEL in November 2004. Amounts in 2004 do not include the six markets sold to AT&T Wireless in February 2004.

(1b) Amounts in 2004 include (i) the results of the six markets sold to AT&T Wireless in February 2004 from January 1, 2004 through February 17, 2004; and (ii) the results of the two markets sold to ALLTEL in November 2004 for the entire period. Amounts in 2005 exclude (i) the results of the six markets sold to AT&T Wireless in February 2004 for the entire period; and (ii) the results of the two markets sold to ALLTEL in November 2004 for the entire period.

(2) Represents 100% of the population of the markets in which U.S. Cellular has a controlling financial interest for financial reporting purposes, including one additional market consolidated at March 31, 2004, pursuant to the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46) as of January 1, 2004. This market was subsequently sold in November 2004 and not included at March 31, 2005. The total market population of the six markets sold to AT&T Wireless in February 2004 is not included in the amounts for 2005 or 2004, as the customers sold to AT&T Wireless are not included in U.S. Cellular s consolidated customer base as of March 31, 2005 or 2004.

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

	March 31, 2005	March 31, 2004
Customers on postpay service plans in which the end user is a customer of U.S. Cellular (postpay customers)	4,378,000	4,041,000
End user customers acquired through U.S. Cellular s agreement with a third party (reseller customers) *	526,000	367,000
Total postpay customer base	4,904,000	4,408,000
Customers on prepaid service plans in which the end user is a customer of U.S. Cellular (prepaid customers)	223,000	139,000
Total customers	5,127,000	4,547,000

* Pursuant to its agreement with the third party, U.S. Cellular is compensated by the third party on a postpay basis; as a result, all customers U.S. Cellular has acquired through this agreement are considered to be postpay customers.

(4) Calculated using 2004 and 2003 Claritas population estimates for 2005 and 2004, respectively. Total market population is used only for the purposes of calculating market penetration, which is calculated by dividing customers by the total market population (without duplication of population in overlapping markets).

(5) Net customer additions represents the number of net customers added to U.S. Cellular s overall customer base through all of its marketing distribution channels, excluding any customers transferred through acquisition or divestiture activity. Net retail customer additions represents the number of net customers added to U.S. Cellular s customer base, excluding its reseller customer base, through its marketing distribution channels, excluding any customers transferred through acquisition or divestiture activity. Full-year 2005 estimates for U.S. Cellular s net retail customer additions are included in the overall discussion of full-year 2005 estimates under Operating Income.

(6) Management uses this measurement to assess the amount of service revenue U.S. Cellular generates each month on a per unit basis. Variances in this measurement are monitored and compared to variances in expenses on a per unit basis. Average monthly service revenue per customer is calculated as follows:

	Three Months Ended March 31,			
	2005 (As Restated)		2004 (As Restated)	
	(Dollars in thousands)			
Service Revenues per Statement of Operations	$	671,639	$	614,951
Divided by average customers during period (000s) *		5,035		4,473
Divided by number of months in each period		3		3
Average monthly service revenue per customer	$	44.46	$	45.83

* Average customers during period is calculated by adding the number of total customers, including reseller customers, at the beginning of the first month of each period and at the end of each month in the period and dividing by the number of months in the period plus one. Acquired and divested customers are included in the calculation on a prorated basis for the amount of time U.S. Cellular owned such customers during each period.

(7) Postpay churn rate per month represents the percentage of the postpay customer base that disconnects service each month, including both postpay customers and reseller customer numbers. Reseller customers can disconnect service without the associated account number being disconnected from U.S. Cellular s network if the reseller elects to reuse the customer telephone number; as a result, only those reseller customer numbers that are disconnected from U.S. Cellular s network are counted in the number of postpay disconnects. The calculation divides the total number of postpay and reseller customers who disconnect service during the period by the number of months in such period, and then divides that quotient by the average monthly postpay customer base, which includes both postpay and reseller customers, for such period.

(8) For a discussion of the components of this calculation, see Operating Expenses Selling, General and Administrative.

On February 18, 2004, U.S. Cellular completed the sale of certain of its wireless properties in southern Texas to AT&T Wireless for $96.9 million in cash, subject to a working capital adjustment. The U.S. Cellular markets sold to AT&T Wireless included wireless assets and customers in six cellular markets. The southern Texas markets sold to AT&T Wireless are included in consolidated operations from January 1, 2004 through February 17, 2004.

Operating revenues increased $57.9 million, or 9%, to $711.1 million in 2005 from $653.2 million in 2004.

	Three Months Ended March 31, 2005 (As Restated)		Three Months Ended March 31, 2004 (As Restated)	
	(Dollars in thousands)			
Retail service	$	592,167	$	535,291
Inbound roaming		29,875		42,493
Long-distance and other service revenues		49,597		37,167
Service Revenues		671,639		614,951
Equipment sales		39,432		38,224
	$	711,071	$	653,175

Service revenues increased $56.6 million, or 9%, to $671.6 million in 2005 from $615.0 million in 2004. Service revenues primarily consist of: (i) charges for access, airtime, roaming and value-added services provided to U.S. Cellular s retail customers and to end users through third party resellers (retail service); (ii) charges to other wireless carriers whose customers use U.S. Cellular s wireless systems when roaming (inbound roaming); and (iii) charges for long-distance calls made on U.S. Cellular s systems. The increase was primarily due to the growing number of retail customers. Monthly service revenue per customer averaged $44.46 in the first three months of 2005, and $45.83 in the first three months of 2004. See footnote 6 to the table above for the calculation of average monthly service revenue per customer.

Retail service revenues increased $56.9 million, or 11%, to $592.2 million in 2005 from $535.3 million in 2004. Growth in U.S. Cellular s customer base, an increase in average monthly retail minutes of use per customer and growth in revenue from data services were the primary reasons for the increase in retail service revenue. The number of customers increased 13% to 5,127,000 at March 31, 2005, from 4,547,000 at March 31, 2004, primarily reflecting 613,000 net new customer additions from U.S. Cellular s marketing (including reseller) distribution channels over the past twelve months. Revenues from data products and services increased to $28.8 million in 2005 from $10.8 million in 2004, as U.S. Cellular s **easy**edge[SM] products were enhanced and made available in all of its markets. Monthly retail minutes of use per customer increased to 584 in 2005 from 491 in 2004. The increase in monthly local retail minutes of use was driven by U.S. Cellular s focus on designing sales incentive programs and customer billing rate plans to stimulate overall usage. Management anticipates that growth in the customer base in U.S. Cellular s wireless markets will be slower in the future, primarily as a result of the increased competition in its markets and the increasing maturity of the wireless marketplace. However, as U.S. Cellular expands its operations in its recently acquired and launched markets in future years, it anticipates adding customers and revenues in those markets.

The impact on retail service revenue of the increase in average monthly retail minutes of use was offset by a decrease in average revenue per minute of use in 2005. Additionally, the percentage of U.S. Cellular s customer base represented by prepaid and reseller customers, which generate less revenue per customer on average than postpay customers, increased from 11% at March 31, 2004 to 15% at March 31, 2005.

As a result, average monthly retail service revenue per customer decreased 2% to $39.20 in 2005 from $39.88 in 2004. The decrease in average revenue per minute of use reflects the effects of increasing competition, which has led to the inclusion of an increasing number of minutes in package pricing plans.

Management anticipates that U.S. Cellular s average revenue per minute of use will continue to decline in the future, reflecting increased competition and penetration of the consumer market.

Inbound roaming revenues decreased $12.6 million, or 30%, to $29.9 million in 2005 from $42.5 million in 2004. The decrease in revenue primarily related to the decrease in revenue per roaming minute of use, partially offset by an increase in roaming minutes of use. Also contributing to the decrease in inbound roaming revenue in 2005 was the effect of the sale of markets to AT&T Wireless and ALLTEL in 2004; these markets had historically provided substantial amounts of inbound roaming revenue. The decline in revenue per minute of use is primarily due to the general downward trend in negotiated rates. The increase in inbound roaming minutes of use was primarily driven by the overall growth in the number of customers throughout the wireless industry.

U.S. Cellular anticipates that the rate of growth in inbound roaming minutes of use will continue to slow down due to these factors:

newer customers may roam less than existing customers, reflecting further penetration of the consumer market;

U.S. Cellular s roaming partners may switch their business from U.S. Cellular to other operators or to their own systems; and

as certain wireless operators convert their networks to Global System for Mobile Communication (GSM) digital technology, which U.S. Cellular only supports through its analog service and in some cases through its Time Division Multiple Access (TDMA) service, those operators may switch their business to other operators which offer GSM service.

U.S. Cellular also anticipates that average inbound roaming revenue per minute of use will continue to decline, reflecting the continued general downward trend in negotiated rates.

Long-distance and other service revenues increased $12.4 million, or 33%, to $49.6 million in 2005 from $37.2 million in 2004. The increase primarily reflected a $13.1 million increase in competitive eligible telecommunications carrier funds received for the states in which U.S. Cellular is eligible to receive such funds. Of this amount, approximately $5.1 million represented a one-time reimbursement related to filings for prior periods. This increase was partially offset by a $1.2 million decrease in long-distance revenue, which primarily reflected price reductions related to long-distance charges on roaming minutes of use as well as U.S. Cellular s increasing use of pricing plans for its retail customers which include long-distance calling at no additional charge.

Equipment sales revenues increased $1.2 million, or 3%, to $39.4 million in 2005 from $38.2 million in 2004. U.S. Cellular includes in its equipment sales revenues any handsets and related accessories sold to its customers, whether the customers are new to U.S. Cellular or are current customers who are changing handsets. U.S. Cellular also sells handsets to its agents at a price approximately equal to U.S. Cellular s cost, before applying any rebates. Selling handsets to agents enables U.S. Cellular to provide better control over handset quality, establish roaming preferences and pass along quantity discounts. Management anticipates that it will continue to sell handsets to agents in the future, and that it will continue to provide rebates to agents who provide handsets to new and current customers. Equipment sales revenues have grown less significantly than cost of equipment sold in the three months ended March 31, 2005 due to the continued substantial discounting of handsets. This trend is occurring throughout the wireless industry.

Equipment sales revenues from handset sales to agents are recognized upon delivery of the related products to the agents, net of anticipated agent rebates. In most cases, the agents receive the rebate from U.S. Cellular at the time these agents provide handsets to sign up new customers or retain current customers.

Customers added to U.S. Cellular s customer base through its marketing distribution channels (gross customer activations), one of the primary drivers of equipment sales revenues, increased 7% in 2005. The revenues from handsets provided to current customers for retention purposes declined slightly, partially reducing the growth in equipment sales revenues. In 2005, U.S. Cellular continued to focus on retaining customers by offering existing customers new handsets similar to those offered to new customers as the expiration dates of customers service contracts approached; the volume of such transactions declined in 2005 compared to 2004.

Operating expenses increased $47.4 million, or 8%, to $671.5 million in 2005 from $624.1 million in 2004. The major components of operating expenses are shown in the table below.

	Three Months Ended March 31, 2005 (As Restated)	Three Months Ended March 31, 2004 (As Restated)
	(Dollars in thousands)	
System operations (exclusive of depreciation, amortization and accretion included below)	$ 138,471	$ 139,608
Cost of equipment sold	127,248	119,818
Selling, general and administrative	278,330	250,793
Depreciation, amortization and accretion	127,493	114,018
(Gain) loss on assets held for sale		(143)
	$ 671,542	$ 624,094

38

System operations expenses (excluding depreciation, amortization and accretion) decreased $1.1 million, or less than 1%, to $138.5 million in 2005 from $139.6 million in 2004. System operations expenses include charges from landline telecommunications service providers for U.S. Cellular s customers use of their facilities, costs related to local interconnection to the landline network, charges for maintenance of U.S. Cellular s network, long-distance charges, outbound roaming expenses and payments to third-party data product and platform developers. The factors affecting system operations expenses in 2005 were as follows:

a 19% increase in the number of cell sites within U.S. Cellular s systems, to 4,899 in 2005 from 4,122 in 2004, as U.S. Cellular continues to expand and enhance coverage in its service areas by launching operations in new markets and continuing growth in existing markets;

increases in minutes of use on U.S. Cellular s systems and by its customers using other systems when roaming; and

an ongoing reduction both in the per-minute cost of usage on U.S. Cellular s systems and in negotiated roaming rates

System operations expenses were also affected by the following:

maintenance, utility and cell site expenses increased $7.2 million as the number of cell sites increased 19% in 2005;

the cost of minutes of use on U.S. Cellular s systems increased $6.8 million, or 15%, as total minutes used on U.S. Cellular s systems increased 35% in 2005;

expenses incurred when U.S. Cellular s customers used other systems while roaming decreased $15.1 million, or 30%, due to the reduction in cost per minute, primarily resulting from the reduction in negotiated roaming rates; the availability of U.S. Cellular systems in markets launched in 2004 which largely eliminated the need for its customers to incur more expensive roaming charges in those markets; and the sales of markets to AT&T Wireless and ALLTEL in 2004.

In total, management expects system operations expenses to increase over the next few years, driven by the following factors:

increases in the number of cell sites within U.S. Cellular s systems as it continues to add capacity and enhance quality in all markets, and continues development activities in new markets; and

increases in minutes of use, both on U.S. Cellular s systems and by U.S. Cellular s customers on other systems when roaming.

These factors are expected to be partially offset by anticipated decreases in the per-minute cost of usage both on U.S. Cellular s systems and on other carriers networks. As the recently launched markets have historically been among U.S. Cellular s customers most popular roaming destinations, management anticipates that the continued integration of these markets into its operations will result in a further increase in minutes of use by U.S. Cellular s customers on its systems and a corresponding decrease in minutes of use by its customers on other systems, resulting in a lower overall increase in minutes of use by U.S. Cellular s customers on other systems. Such a shift in minutes of use should reduce U.S. Cellular s per-minute cost of usage in the future, to the extent that its customers use its systems rather than other carriers networks.

Cost of equipment sold increased $7.4 million, or 6%, to $127.2 million in 2005 from $119.8 million in 2004. The increase was primarily due to the 7% increase in gross customer activations. In addition, the overall cost per handset increased in the first three months of 2005 as more customers purchased higher priced, data-enabled handsets. These handsets are required for customers to access U.S. Cellular s **easy**edge[SM] suite of services. These effects were partially offset by a decrease in the cost of handsets provided to customers for retention purposes as the number of retention transactions decreased in 2005.

Selling, general and administrative expenses increased $27.5 million, or 11%, to $278.3 million in 2005 from $250.8 million in 2004. Selling, general and administrative expenses primarily consist of salaries, commissions and expenses of field sales and retail personnel and offices; agent commissions and related expenses; corporate marketing, merchandise management and telesales department salaries and expenses; advertising; and public relations expenses. Selling, general and administrative expenses also include the costs of operating U.S. Cellular s customer care centers, the costs of serving customers and the majority of U.S. Cellular s corporate expenses.

The increase in selling, general and administrative expenses in the first three months of 2005 is primarily due to the increase in employee-related expenses associated with acquiring, serving and retaining customers, primarily as a result of the 13% increase in U.S. Cellular s customer base and a 13% increase in full-time equivalent employees. Selling, general and administrative expenses were also affected by the following factors:

a $5.2 million increase in consulting and outsourcing costs as U.S. Cellular increased its use of third parties to perform certain functions and participate in certain projects;

a $5.1 million increase in expenses related to federal USF contributions, primarily driven by an increase in retail service revenues, upon which contributions are based. Most of these payments are offset by increases in retail service revenues for amounts passed through to customers; and

a $3.5 million decrease in amounts billed to AT&T Wireless and ALLTEL for transition services, which were provided subsequent to the completion of the sale and exchange transactions with those companies; such billings offset selling, general and administrative expenses U.S. Cellular incurred to provide such services.

Sales and marketing cost per gross customer activation increased 7% to $396 in 2005 from $371 in 2004, primarily due to increased handset subsidies. Management uses this measurement to assess both the cost of acquiring customers on a per gross customer activation basis and the efficiency of its marketing efforts. Sales and marketing cost per gross customer activation is not calculable using financial information derived directly from the Statement of Operations. The definition of sales and marketing cost per gross customer activation that U.S. Cellular uses as a measure of the cost to acquire additional customers through its marketing distribution channels may not be comparable to similarly titled measures that are reported by other companies.

Below is a summary of sales and marketing cost per gross customer activation for each period:

	Three Months Ended March 31,			
	2005 (As Restated)		2004 (As Restated)	
	(Dollars in thousands, except per customer amounts)			
Components of cost:				
Selling, general and administrative expenses related to the acquisition of new customers (1)	$	120,552	$	110,168
Cost of equipment sold to new customers (2)		95,597		83,388
Less equipment sales revenue from new customers (3)		(47,582)		(46,419)
Total costs	$	168,567	$	147,137
Gross customer activations (000s) (4)		426		397
Sales and marketing cost per gross customer activation	$	396	$	371

(1) Selling, general and administrative expenses related to the acquisition of new customers is reconciled to total selling, general and administrative expenses as follows:

	Three Months Ended March 2005 (As Restated)	Three Months Ended March 2004 (As Restated)
	(Dollars in thousands)	
Selling, general and administrative expenses, as reported	$ 278,330	$ 250,793
Less expenses related to serving and retaining customers	(157,778)	(140,625)
Selling, general and administrative expenses related to the acquisition of new customers	$ 120,552	$ 110,168

(2) Cost of equipment sold to new customers is reconciled to cost of equipment sold as follows:

	Three Months Ended March 31, 2005 (As Restated)		2004 (As Restated)	
	(Dollars in thousands)			
Cost of equipment sold as reported	$	127,248	$	119,818
Less cost of equipment sold related to the retention of existing customers		(31,651)		(36,430)
Cost of equipment sold to new customers	$	95,597	$	83,388

(3) Equipment sales revenue from new customers is reconciled to equipment sales revenues as follows:

	Three Months Ended March 31, 2005 (As Restated)		2004 (As Restated)	
	(Dollars in thousands)			
Equipment sales revenue as reported	$	39,432	$	38,224
Less equipment sales revenues related to the retention of existing customers, excluding agent rebates		(5,437)		(6,048)
Add agent rebate reductions of equipment sales revenues related to the retention of existing customers		13,587		14,243
Equipment sales revenues from new customers	$	47,582	$	46,419

(4) Gross customer activations represent customers added to U.S. Cellular s customer base through its marketing distribution channels, including customers added through third party resellers, during the respective periods presented.

Monthly general and administrative expenses per customer, including the net costs related to the renewal or upgrade of service contracts of existing U.S. Cellular customers (net customer retention costs), decreased 5% to $13.08 in 2005 from $13.81 in 2004. Management uses this measurement to assess the cost of serving and retaining its customers on a per unit basis.

This measurement is reconciled to total selling, general and administrative expenses as follows:

	Three Months Ended March 31, 2005 (As Restated)		2004 (As Restated)	
	(Dollars in thousands, except per customer amounts)			
Components of cost (1)				
Selling, general and administrative expenses as reported	$	278,330	$	250,793
		(120,552)		(110,168)

Less selling, general and administrative expenses related to the acquisition of new customers				
Add cost of equipment sold related to the retention of existing customers		31,651		36,430
Less equipment sales revenues related to the retention of existing customers, excluding agent rebates		(5,437)		(6,048)
Add agent rebate reductions of equipment sales revenues related to the retention of existing customers		13,587		14,243
Net cost of serving and retaining customers	$	197,579	$	185,250
Divided by average customers during period (000s) (2)		5,035		4,473
Divided by three months in each period		3		3
Average monthly general and administrative expenses per customer	$	13.08	$	13.81

(1) These components were previously identified in the table which calculates sales and marketing cost per customer activation and related footnotes.

(2) Average customers for the three month periods were previously defined in footnote 6 to the table of summarized operating data.

41

Depreciation, amortization and accretion expense increased $13.5 million, or 12%, to $127.5 million in 2005 from $114.0 million in 2004. The majority of the increase reflects rising average fixed asset balances, which increased 13% in 2005. Increased fixed asset balances in 2005 resulted from the following factors:

the addition of 777 cell sites to U.S. Cellular s network since March 31, 2004; new cell sites were built to improve coverage and capacity in U.S. Cellular s markets, both in currently served areas as well as in areas where U.S. Cellular has launched or is preparing to launch commercial service; and

the addition of digital radio channels and switching capacity to U.S. Cellular s network to accommodate increased usage.

See Financial Resources and Liquidity and Capital Resources for further discussions of U.S. Cellular s capital expenditures.

In 2005, additional depreciation expense was recorded related to the following:

$4.3 million of writeoffs of fixed assets related to the disposal of assets or trade-in of older assets for replacement assets; and

$2.3 million of writeoffs of TDMA equipment related to its disposal or consignment for future sale.

In 2004, $7.4 million of additional depreciation expense was recorded to reflect the change in useful lives of certain TDMA radio equipment, switch software and antenna equipment.

Amortization expense decreased $1.6 million, or 13%, to $10.8 million in 2005 from $12.4 million in 2004, primarily representing a $1.2 million decrease in amortization related to the customer list intangible assets and other amortizable assets acquired in the Chicago market transaction during 2002, and a $1.1 million decrease in the amortization of U.S. Cellular s office systems, including its customer billing and information system.

Operating Income

Operating income increased $10.4 million, or 36%, to $39.5 million in 2005 from $29.1 million in 2004. The operating income margins (as a percent of service revenues) were 5.9% in 2005 and 4.7% in 2004. The increase in operating income and operating income margin in 2005 reflects increased service revenues, primarily driven by growth in the number of customers served by U.S. Cellular s systems, partially offset by the following factors:

increased minutes of use and cell sites in service;

increased selling, general and administrative expense, primarily due to the increase in expenses related to acquiring, serving and retaining additional customers;

increased equipment subsidies, primarily due to the increase in the number of handsets sold to new customers as well as the increased subsidy per handset; and

increased depreciation expense, primarily driven by an increase in average fixed assets related to ongoing improvements to U.S. Cellular s wireless network.

U.S. Cellular expects most of the above factors to continue to have an effect on operating income and operating margins for the next several quarters. Any changes in the above factors, as well as the effects of other drivers of U.S. Cellular s operating results, may cause operating income and operating margins to fluctuate over the next several quarters.

U.S. Cellular plans to incur additional expenses during 2005 as it competes in its established markets and in recently launched markets. Additionally, U.S. Cellular plans to build out its network into other as yet unserved portions of its licensed areas, and expects to begin sales and marketing operations in the St. Louis area in 2005 and in other areas in subsequent years. U.S. Cellular launched its brand of data-related wireless services in many of its markets in the second half of 2003, and expects to incur expenses related to its continued marketing of data-related wireless services in the next few years.

As a result, depending on the timing and effectiveness of these initiatives, U.S. Cellular anticipates that operating income will range from $180 million to $220 million for the full year of 2005, including approximately $530 million of anticipated depreciation, amortization and accretion expenses, compared to $183.3 million of operating income in 2004.

U.S. Cellular anticipates that service revenues will total approximately $2.9 billion for the full year of 2005, compared to service revenues of $2.62 billion in 2004. The anticipated service revenue growth in 2005 reflects the continued growth in U.S. Cellular s customer base and the continued marketing of data-related wireless services in its markets.

Depending on the timing and effectiveness of its marketing efforts, U.S. Cellular anticipates that net retail customer activations, excluding net customer activations from its reseller distribution channels, will total 475,000 to 525,000 for the full year of 2005.

The above estimates of 2005 operating income; depreciation, amortization and accretion expenses; service revenues; and net retail customer activations include the impact of commercially launching service in the St. Louis market during the third quarter of 2005. These estimates were initially announced by U.S. Cellular on March 18, 2005 and continued to represent management s views as of the date of filing of the original Form 10-Q. Such forward-looking statements should not be assumed to be accurate as of any future date. TDS and U.S. Cellular undertake no duty to update such information whether as a result of new information, future events or otherwise.

U.S. Cellular anticipates that its net costs associated with customer growth, service and retention, initiation of new services, launches in new markets and fixed asset additions will continue to grow. U.S. Cellular anticipates that its net customer retention costs will increase in the future as its customer base grows, as competitive pressures continue and as per unit handset costs increase without compensating increases in the per unit sales price of handsets to customers and agents.

Management believes there exists a seasonality in both service revenues, which tend to increase more slowly in the first and fourth quarters, and operating expenses, which tend to be higher in the fourth quarter than in the other quarters due to increased marketing activities and customer growth, which may cause operating income to vary from quarter to quarter. Management anticipates that the impact of such seasonality will decrease in the future, particularly as it relates to operating expenses, as the proportion of full year customer activations derived from fourth quarter holiday sales is expected to decline to reflect ongoing, rather than seasonal, promotions of U.S. Cellular s products.

TDS TELECOM OPERATIONS

TDS operates its wireline telephone operations through TDS Telecommunications Corporation (TDS Telecom), a wholly owned subsidiary. Total equivalent access lines served by TDS Telecom increased by 70,800 or 6%, since March 31, 2004 to 1,172,000. An equivalent access line is derived by converting a high-capacity data line to an estimated equivalent number, in terms of capacity, of switched access lines.

TDS Telecom s incumbent local exchange carrier subsidiaries served 734,000 equivalent access lines at March 31, 2005, a 2% (11,600 equivalent access lines) increase from 722,400 equivalent access lines at March 31, 2004.

TDS Telecom s competitive local exchange carrier subsidiary served 438,000 equivalent access lines at March 31, 2005, a 16% (59,200 equivalent access lines) increase from 378,800 equivalent access lines served at March 31, 2004.

	Three Months Ended March 31, 2005 (As Restated)		2004 (As Restated)	
	(Dollars in thousands)			
Incumbent Local Exchange Carrier Operations				
Operating Revenues	$	161,843	$	159,201
Operating Expenses		121,261		113,785
Operating Income		40,582		45,416
Competitive Local Exchange Carrier Operations				
Operating Revenues		59,267		54,736
Operating Expenses		60,689		58,548
Operating (Loss)		(1,422)		(3,812)
Intercompany revenue elimination		(1,261)		(993)
Intercompany expense elimination		(1,261)		(993)
TDS Telecom Operating Income	$	39,160	$	41,604

Operating income decreased $2.4 million, or 6%, to $39.2 million in the three months ended March 31, 2005 from $41.6 million in 2004.

For 2005, TDS Telecom expects modest revenue growth with operating revenues from the incumbent local exchange carrier operations in the range of $655 million to $665 million and operating revenues from the competitive local exchange carrier operations in the range of $240 million to $250 million. Operating income from the incumbent local exchange carrier is anticipated to range from $170 million to $180 million including approximately $135 million of anticipated depreciation and amortization expenses, while competitive local exchange carrier operating losses are anticipated to range from $15 million to $10 million, including approximately $30 million of anticipated depreciation and amortization expenses.

The foregoing forward-looking statements with respect to anticipated operating revenues, operating income and operating losses were initially announced by TDS Telecom on February 9, 2005 and continue to represent management s views as of the date of filing of the original Form 10-Q. Such forward-looking statements should not be assumed to be accurate as of any future date. TDS undertakes no legal duty to update such information whether as a result of new information, future events or otherwise.

Incumbent Local Exchange Carrier Operations

Operating revenues increased $2.6 million, or 2%, to $161.8 million in the three months ended March 31, 2005 from $159.2 million in 2004.

	Three Months Ended March 31,			
		2005 (As Restated)		2004 (As Restated)
	(Dollars in thousands)			
Local service	$	49,627	$	50,486
Network access and long distance		90,096		88,210
Miscellaneous		22,120		20,505
	$	161,843	$	159,201

Local service revenues decreased $0.9 million, or 2%, to $49.6 million in 2005 from $50.5 million in 2004 primarily due to a 2% decrease in physical access lines, 62% of which was due to loss of second lines that was affected by digital subscriber lines substitution.

Network access and long distance revenues increased $1.9 million, or 2%, to $90.1 million in 2005 from $88.2 million in 2004. Revenues from long distance service increased $0.9 million in 2005 reflecting increased long distance customers. As of March 31, 2005, TDS Telecom incumbent local exchange carrier operations were providing long-distance service to 302,400 customers compared to 266,300 customers at March 31, 2004. Revenues generated from access minutes increased $1.2 million, reflecting a 3% increase in access minutes of use in 2005. Compensation from state and national revenue pools for recovery of expenses of providing network access decreased $0.2 million as compared to 2004.

Miscellaneous revenues from Internet, digital subscriber line and other non-regulated lines of business increased $1.6 million or 8%, to $22.1 million in 2005 from $20.5 million in 2004. As of March 31, 2005, TDS Telecom incumbent local exchange carrier operations were providing dial-up Internet service to 98,200 customers compared to 113,600 customers in 2004 and were providing digital subscriber line service to 49,300 customers compared to 27,300 customers in 2004.

Operating expenses increased by $7.5 million, or 7%, to $121.3 million in 2005 from $113.8 million in 2004, primarily reflecting increased cost of services and products.

Three Months Ended
March 31,

	2005 (As Restated)	2004 (As Restated)
	(Dollars in thousands)	
Cost of services and products (exclusive of depreciation and amortization included below)	$ 43,739	$ 37,751
Selling, general and administrative expense	43,258	43,487
Depreciation and amortization	34,264	32,547
	$ 121,261	$ 113,785

Cost of services and products increased $5.9 million or, 16%, to $43.7 million in 2005 from $37.8 million in 2004. Increases in line charges and circuit expense and other related cost of goods sold associated with growth in digital subscriber line customers resulted in $2.1 million of expense increases. Growth in long distance customers combined with increased usage stimulated by call plans increased expense $1.6 million. The remainder of the increase is driven by increased labor and contractor charges.

Selling, general and administrative expenses decreased by less than 1%, to $43.3 million from $43.5 million in 2004. Expenses grew at a rate comparable to inflation, but the year-to-year increase was impacted by a write-off in the first quarter of 2004, of development costs incurred for a product not integrated into a service offering.

Depreciation and amortization expenses increased $1.8 million, or 5%, to $34.3 million in 2005 from $32.5 million in 2004 primarily due to additions to plant in service.

Operating income decreased $4.8 million, or 11%, to $40.6 million in 2005 from $45.4 million in 2004 primarily as a result of the increase in cost of services and products.

Competitive Local Exchange Carrier Operations

Operating revenues (revenue from the provision of local and long distance telephone service) increased $4.6 million, or 8%, to $59.3 million in 2005 from $54.7 million in 2004.

	Three Months Ended March 31, 2005 (As Restated)	Three Months Ended March 31, 2004 (As Restated)
	(Dollars in thousands)	
Operating Revenues	$ 59,267	$ 54,736

Retail revenues increased $5.8 million, or 12%, to $53.0 million in 2005 from $47.2 million in 2004, primarily due to customer growth.

Wholesale revenues, which represent charges to incumbent carriers, decreased $1.2 million, or 17% to $6.3 million in 2005 from $7.5 million in 2004 primarily due to access rate decreases.

Operating expenses increased $2.2 million, or 4%, to $60.7 million in 2005 from $58.5 million in 2004.

	Three Months Ended March 31, 2005 (As Restated)	Three Months Ended March 31, 2004 (As Restated)
	(Dollars in thousands)	
Cost of services and products (exclusive of depreciation and amortization included below)	$ 24,124	$ 20,047
Selling, general and administrative expense	29,262	29,490
Depreciation and amortization	7,303	9,011
	$ 60,689	$ 58,548

Cost of services and products increased $4.1 million, or 20%, to $24.1 million in 2005 from $20.0 million in 2004.

Selling, general and administrative expenses decreased $0.2 million, or 1%, to $29.3 million in 2005 from $29.5 million in 2004. Sales and marketing expenses have decreased as a result of changes in strategy on the mix of targeted customers, but have been offset by increased administrative costs to secure continued access to unbundled network elements.

Depreciation and amortization expenses decreased $1.7 million, or 19%, to $7.3 million in 2005 from $9.0 million in 2004 as a result of decreases in fixed assets. In December 2004, TDS Telecom concluded that the long-lived tangible assets of the competitive local exchange carrier operations were impaired and recorded a loss of $87.9 million to reduce the book value of those assets.

Operating loss decreased $2.4 million, or 63%, to $(1.4) million in 2005 from $(3.8) million in 2004.

Incumbent and competitive local exchange carriers are faced with significant challenges, including growing competition from wireless and other wireline providers, changes in regulation, and new technologies such as Voice over Internet Protocol. Despite these challenges, TDS Telecom has successfully maintained equivalent access line levels and customer satisfaction.

Regulatory Changes

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.

RECENT ACCOUNTING PRONOUNCEMENTS

Share-Based Payments

SFAS No. 123 (revised 2004), Share-Based Payment, was issued in December 2004 and becomes effective for TDS in the first quarter of 2006. The statement requires that compensation cost resulting from all share-based payment transactions be recognized in the financial statements. TDS has reviewed the provisions of this statement and expects to record compensation expense for certain share-based payment transactions, primarily related to stock options, in the Statement of Operations upon adoption of this standard. See Stock-Based Compensation disclosure in Note 3 for the pro forma impact on net income and earnings per share.

Conditional Asset Retirement Obligations

FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, was issued in March 2005. It is effective no later than December 31, 2005. This Interpretation clarifies that the term conditional asset retirement obligation, as used in SFAS No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. Interpretation 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. TDS is currently reviewing the requirement of this Interpretation and has not yet determined the impact, if any, on TDS s financial position or results of operations.

FINANCIAL RESOURCES

TDS operates a capital- and marketing-intensive business. In recent years, TDS has generated cash from its operations, received cash proceeds from divestitures, used its short-term credit facilities and used long-term debt financing to fund its construction costs and operating expenses. TDS anticipates further increases in wireless customers and wireline equivalent access lines, and in revenues and operating expenses. Cash flows may fluctuate from quarter to quarter and from year to year due to seasonality, market startups and other factors. The following table provides a summary of TDS s cash flow activities in the three months ended March 31, 2005 and 2004:

	Three Months Ended March 31, 2005 (As Restated)	2004 (As Restated)
	(Dollars in thousands)	
Cash flows from (used in)		
Operating activities	$ 150,159	$ 115,426
Investing activities	(256,275)	(73,177)
Financing activities	93,407	74,655
Net increase (decrease) in cash and cash equivalents	$ (12,709)	$ 116,904

Cash Flows from Operating Activities

TDS generates substantial internal funds from the operations of U.S. Cellular and TDS Telecom. Cash flows from operating activities totaled $150.2 million in the three months ended March 31, 2005 compared to $115.4 million in 2004. Income including adjustments to reconcile net income to net cash provided by operating activities, excluding changes in assets and liabilities from operations (noncash items) totaled $202.6 million in 2005 and $204.7 million in 2004. Distributions from unconsolidated investments provided $1.5 million in 2005 and $3.7 million in 2004. Changes in assets and liabilities from operations required $52.4 million in 2005 and $89.3 million in 2004, reflecting timing differences in the payment of accounts payable and accrued taxes and the receipt of accounts receivable.

The following table is a summary of the components of cash flows from operating activities:

	Three Months Ended March 31, 2005 (As Restated)	Three Months Ended March 31, 2004 (As Restated)
	(Dollars in thousands)	
Net income	$ 23,049	$ 18,254
Adjustments to reconcile net income to net cash provided by operating activities	179,586	186,448
	202,635	204,702
Changes in assets and liabilities	(52,476)	(89,276)
	$ 150,159	$ 115,426

Cash Flows from Investing Activities

TDS makes substantial investments each year to acquire, construct, operate and upgrade modern high-quality communications networks and facilities as a basis for creating long-term value for shareowners. In recent years, rapid changes in technology and new opportunities have required substantial investments in revenue enhancing upgrades to TDS s networks. Cash flows used for investing activities required $256.3 million in the first three months of 2005 compared to $73.2 million in 2004.

Cash required for capital additions totaled $134.8 million in the three months ended March 31, 2005 and $127.1 million in 2004. The primary purpose of TDS s construction and expansion expenditures is to provide for significant customer and usage growth, to upgrade service, and to take advantage of service-enhancing and cost-reducing technological developments in order to maintain competitive services. U.S. Cellular s capital additions totaled $112.8 million in 2005 and $101.5 million in 2004 representing expenditures to construct cell sites, to replace retired assets and to improve business systems. TDS Telecom s capital expenditures for its incumbent local exchange carrier operations totaled $16.1 million in 2005 and $17.6 million in 2004 representing expenditures for switch modernization and outside plant facilities to maintain and enhance the quality of service and to offer new revenue opportunities. TDS Telecom s capital expenditures for its competitive local exchange carrier operations totaled $4.2 million in 2005 and $6.5 million in 2004 for switching and other network facilities. Corporate and other capital expenditures totaled $1.7 million in 2005 and $1.5 million in 2004.

U.S. Cellular has made capital contributions and advances to Carroll Wireless and/or its general partner of approximately $120.9 million in 2005. The amount, plus the initial deposit of $9.0 million made in the fourth quarter of 2004, was paid to the FCC for the amounts owed for Carroll Wireless winning bids on 17 licenses in the FCC wireless license auction completed in February 2005.

In 2004, net cash received from the sale of wireless properties in southern Texas to AT&T Wireless totaled $96.9 million, subject to a working capital adjustment. Cash paid for the acquisition of certain minority wireless interests in several markets in which U.S. Cellular already owned a controlling interest totaled $40.4 million in 2004.

Cash Flows from Financing Activities

Cash flows from financing activities provided $93.4 million in the three months ended March 31, 2005, and provided $74.7 million in 2004. Issuances of long-term debt, primarily $116.25 million of 6.625% notes by TDS provided proceeds after underwriting discounts of $112.6 million in 2005. Repayments of long-term debt, including RUS debt, required $127.7 million in 2005. Cash received from short-term borrowings on revolving lines of credit provided $165.0 million in 2005 while repayments required $60.0 million in 2005. In 2004, short-term borrowings provided $230.0 million while repayments required $145.0 million. Treasury shares reissued for stock options exercised and other benefit plans in 2005 provided $13.5 million and $13.2 million in 2004. Dividends paid on TDS Common Shares and Preferred Shares, required $10.1 million in 2005 and $9.5 million in 2004.

There were no TDS Common Share repurchases in the three months ended March 31, 2005. During the three months ended March 31, 2004, cash required for the repurchase of TDS Common Shares totaled $2.8 million. In total, TDS repurchased 40,300 Common Shares for an average price of $69.82 per share including commissions. An additional $5.6 million was paid in January 2004 to settle repurchases that occurred at the end of December 2003.

LIQUIDITY AND CAPITAL RESOURCES

TDS believes that internal cash flow, existing cash and cash equivalents, and funds available from line of credit arrangements provide sufficient financial resources to finance TDS s near-term capital, business development and expansion expenditures. TDS and its subsidiaries may have access to public and private capital markets to help meet their long-term financing needs. TDS and its subsidiaries anticipate accessing public and private capital markets to issue debt and equity securities when and if capital requirements, financial market conditions and other factors warrant.

However, the availability of financial resources is dependent on economic events, business developments, technological changes, financial conditions or other factors, many of which are not in TDS s control. If at any time financing is not available on terms acceptable to TDS, TDS might be required to reduce its business development and capital expenditure plans, which could have a materially adverse effect on its business and financial condition. TDS does not believe that any circumstances that could materially adversely affect TDS s liquidity or capital resources are currently reasonably likely to occur, but it cannot provide assurances that such circumstances will not occur. Economic downturns, changes in financial markets or other factors could change the availability of TDS s liquidity and capital resources. Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development, acquisition and share repurchase programs.

TDS generates substantial internal funds from the operations of U.S. Cellular and TDS Telecom. Cash flows from operating activities totaled $150.2 million in the first three months of 2005 compared to $115.4 million in 2004. TDS and its subsidiaries had cash and cash equivalents totaling $1,158.4 million at March 31, 2005.

Revolving Credit Facilities

TDS has a $600 million revolving credit facility available for general corporate purposes. At March 31, 2005, this credit facility had $596.6 million available for use, net of $3.4 million of outstanding letters of credit. This credit facility expires in December 2009. Borrowings bear interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on TDS s credit rating. At March 31, 2005, the contractual spread was 30 basis points (the one-month LIBOR rate was 2.87% at March 31, 2005). Under certain circumstances, with less than two days notice of intent to borrow, interest on borrowings are at the prime rate less 50 basis points (the prime rate was 5.75% at March 31, 2005).

TDS also has $75 million of direct bank lines of credit at March 31, 2005, all of which were unused. The terms of the direct lines of credit provide for borrowings at negotiated rates up to the prime rate (the prime rate was 5.75% at March 31, 2005).

U.S. Cellular has a $700 million revolving credit facility available for general corporate purposes. At March 31, 2005, this credit facility had $564.8 million available for use, net of borrowings of $135.0 million and outstanding letters of credit of $0.2 million. This credit facility expires in December 2009. Borrowings bear interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on U.S. Cellular s credit rating. At March 31, 2005, the contractual spread was 30 basis points (the one-month LIBOR rate was 2.87% at March 31, 2005). Under certain circumstances, with less than two days notice of intent to borrow, interest on borrowings are at the prime rate less 50 basis points (the prime rate was 5.75% at March 31, 2005).

TDS s and U.S. Cellular s interest costs on its revolving credit facilities would increase if their credit ratings from either Standard & Poor s or Moody s were lowered. However, their credit facilities would not cease to be available solely as a result of a decline in their credit ratings. A downgrade in TDS s or U.S. Cellular s credit ratings could adversely affect their ability to renew existing, or obtain access to new, credit facilities in the future. Standard & Poor s currently rates both TDS and U.S. Cellular at A- with a negative outlook. Moody s Investor Service currently rates both Baa1 with a negative outlook. In addition, on March 14, 2005, Moody s announced that it had placed TDS and U.S. Cellular s long-term ratings under review for possible downgrade.

The maturity dates of certain of TDS s and U.S. Cellular s 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. As of the date of filing of this Form 10-Q/A, TDS and U.S. Cellular are in compliance with all covenants and other requirements set forth in their revolving credit agreements.

As disclosed in Note 1, TDS and its audit committee concluded on November 9, 2005 to restate the Consolidated Financial Statements as of and for the three years ended December 31, 2004 and the first and second quarters of 2005. The restatement 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 restatement.

Long-term Financing

In January 2005, The TDS Board of Directors authorized the issuance of up to $350 million of debt securities as a drawdown on a TDS shelf registration statement. Also in January 2005, the TDS Board of Directors authorized a committee of the TDS Board of Directors to approve the repayment of some or all of TDS Telecom s notes issued under certain loan agreements with the Rural Utilities Service, Rural Electrification Administration, Rural Telephone Bank, Federal Financing Bank, Rural Telephone Finance Cooperative and/or other federal government or government-sponsored entities.

On March 31, 2005, TDS issued $116.25 million in aggregate principal amount of unsecured 6.625% senior notes due March 31, 2045. Interest on the notes is payable quarterly. TDS may redeem the notes, in whole or in part, at any time on and after March 31, 2010, at redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. The net proceeds from this offering, after deducting underwriting discounts, were approximately $112.6 million.

Depending on market conditions, TDS is contemplating another debt offering in the second quarter in accordance with the original authorization from the TDS Board of Directors in January 2005.

On March 31, 2005, TDS Telecom subsidiaries repaid approximately $105.6 million in principal amount of notes to the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB) plus accrued interest of $0.6 million. TDS Telecom subsidiaries paid prepayment penalties of $0.6 million associated with these repayments. Unamortized debt issuance costs related to the notes totaling $0.1 million were expensed and included in other income (expense), net in the Statement of Operations. The RUS and RTB debt, held at individual TDS Telecom ILEC companies, had a weighted average interest rate of 5.5% and maturity of approximately 12 years. TDS Telecom may consider repayment of additional RUS and RTB notes in the second quarter of 2005.

As of the date of filing of this Form 10-Q/A, TDS and subsidiaries are in compliance with all covenants and other requirements set forth in long-term debt indentures. TDS does not have any rating downgrade triggers that would accelerate the maturity dates of its long-term debt. However, a downgrade in TDS s credit rating could adversely affect its ability to refinance existing, or obtain access to new, long-term debt in the future.

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.

The investment in Deutsche Telekom AG (Deutsche Telekom) resulted from TDS s disposition of its over 80%-owned personal communications 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 wireless 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 telecommunications entity in which several TDS subsidiaries held interests. The investment in Rural Cellular Corporation (Rural Cellular) is the result of a consolidation of several wireless partnerships in which TDS subsidiaries held interests into Rural Cellular, and the distribution of Rural Cellular stock in exchange for these interests. A contributing factor in TDS s decision not to dispose of the investments is that their tax basis is significantly lower when compared to current stock prices, and therefore would trigger a substantial taxable gain upon disposition.

TDS and its subsidiaries have entered into a number of forward contracts with counterparties related to the marketable equity securities that they hold. The forward contracts mature from May 2007 to September 2008 and, at TDS s and U.S. Cellular s option, may be settled in shares of the respective securities or cash. TDS and U.S. Cellular have provided guarantees to the counterparties which provide assurance that all principal and interest amounts will be paid upon settlement of the contracts by their subsidiaries. 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. Deferred taxes have been provided for the difference between the book basis and the tax basis of the marketable equity securities and are included in deferred tax liabilities on the Balance Sheet. As of March 31, 2005, such deferred tax liabilities totaled $1,137.9 million.

TDS and U.S. Cellular are required to comply with certain covenants under the forward contracts. As of the date of filing of this Form 10-Q/A, TDS and U.S. Cellular are in compliance with all covenants and other requirements set forth in the forward contracts.

As disclosed in Note 1 to the Consolidated Financial Statements, TDS and its audit committee concluded on November 9, 2005 to restate the Consolidated Financial Statements as of and for the three years ended December 31, 2004 and for the first and second quarters of 2005. The restatement resulted in defaults under certain of 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 restatement.

Capital Expenditures

U.S. Cellular s anticipated capital expenditures for 2005 primarily reflect U.S. Cellular s plans for construction, system and capacity expansion, the buildout of certain of its licensed areas and additional expenditures related to its plans to migrate to a single digital equipment platform. U.S. Cellular plans to finance its construction program using internally generated cash and short-term and long-term financing. U.S. Cellular s estimated capital spending for 2005 is currently expected to range from $570 million to $610 million, including any additional capital spending required to facilitate the commercial launch of its services in the St. Louis area. Significant capital expenditures were made prior to 2005 in the St. Louis area to facilitate the provision of service to roaming customers in that market.

U.S. Cellular s 2005 capital expenditures will primarily address the following needs:

Expand and enhance U.S. Cellular s coverage in its service areas.

Provide additional capacity to accommodate increased network usage by current customers.

Enhance U.S. Cellular s retail store network and office systems.

While U.S. Cellular does not expect a significant portion of its capital spending in 2005 to be related to the buildout of newly acquired licensed areas, it does expect that capital spending related to these areas could be significant in 2006 and over the following several years.

TDS Telecom s anticipated capital expenditures for 2005 are currently expected to range from $150 to $165 million. The incumbent local exchange carriers are expected to spend approximately $120 to $130 million to provide to upgrade plant and equipment to provide enhanced services. The competitive local exchange carrier is expected to spend approximately $30 to $35 million to build switching and other network facilities to meet the needs of a growing customer base. TDS Telecom plans to finance its construction program using primarily internally generated cash.

Acquisitions, Exchanges and Divestitures

TDS assesses its holdings on an ongoing basis in order to maximize the benefits derived from its operations. TDS reviews attractive opportunities to acquire additional telecommunications companies and wireless spectrum, which add value to the business. As part of this strategy, TDS may from time-to-time be engaged in negotiations relating to the acquisition of companies, strategic properties or wireless spectrum. TDS may participate as a bidder, or member of a bidding group, in auctions administered by the FCC as it did in the recently completed Auction 58. Recently, TDS has been selling or trading markets that are not strategic to long-term success and redeploying capital to markets it believes offer strategic benefits. TDS may from time-to-time be engaged in negotiations relating to the disposition of other non-strategic properties.

First Quarter 2005 Activity

U.S. Cellular is a limited partner in 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 spectrum which was available only to companies that fall under the FCC definition of designated entities, which are small businesses that have a limited amount of assets. Carroll Wireless was a successful bidder for 17 licensed areas in Auction 58, which ended on February 15, 2005. The aggregate amount due to the FCC for the 17 licenses is $129.9 million, net of all bidding credits to which Carroll Wireless is entitled as a designated entity. These 17 licensed areas cover portions of 11 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas.

In March 2005, Carroll Wireless increased the amount on deposit with the FCC to $129.9 million, from $9 million initially deposited in 2004, and filed an application with the FCC seeking a grant of the subject licenses. TDS expects that the FCC will grant the licenses in the second quarter of 2005. The $129.9 million deposited with the FCC is included in licenses on the Balance Sheet. U.S. Cellular consolidates Carroll Wireless and Carroll PCS, Inc., the general partner of Carroll Wireless, for financial reporting purposes, pursuant to the guidelines of Financial Accounting Standards Board (FASB) Interpretation No. 46R (FIN 46R), as U.S. Cellular anticipates absorbing a majority of Carroll Wireless expected gains or losses.

Carroll Wireless is in the process of developing its long-term business and financing plans. As of March 31, 2005, U.S. Cellular has made capital contributions and advances to Carroll Wireless and/or its general partner of approximately $130 million. Pending finalization of Carroll Wireless permanent financing plan, and upon request by Carroll Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Carroll Wireless and/or its general partner; however, U.S. Cellular has not entered into any commitments to provide Carroll Wireless with any financing beyond the $130 million it has provided to date.

In the first quarter of 2005, TDS adjusted the gain (loss) on investments related to its sale to ALLTEL of certain wireless properties on November 30, 2004. The adjustment increased the total gain (loss) on investment from this transaction by $0.5 million due to a working capital adjustment which was finalized in the first quarter of 2005 related to the entities sold in which TDS previously owned a noncontrolling investment interest.

First Quarter 2004 Activity

On February 18, 2004, U.S. Cellular completed the sale of certain wireless properties in southern Texas to AT&T Wireless for $96.9 million in cash, subject to a working capital adjustment. The U.S. Cellular markets sold to AT&T Wireless included wireless assets and customers in six cellular markets. An aggregate loss of $21.3 million (including a $22.0 million estimate of the loss on assets held for sale in the fourth quarter of 2003 and $0.1 million and $0.6 million reductions of the loss in the first and second quarters of 2004, respectively) was recorded as a loss on assets held for sale (included in operating expenses), representing the difference between the carrying value of the markets sold to AT&T Wireless and the cash received in the transaction. The results of operations of the markets sold to AT&T Wireless were included in results of operations through February 17, 2004.

In the first quarter of 2004, U.S. Cellular purchased certain minority interests in several wireless markets in which it already owned a controlling interest for $40.4 million in cash. These acquisitions increased investment in licenses, goodwill and customer lists by $2.7 million, $3.6 million and $12.9 million, respectively, in the first quarter of 2004.

Repurchase of Securities and Dividends

In 2003, the Board of Directors of TDS authorized the repurchase of up to 3.0 million TDS Common Shares through February 2006. As market conditions warrant, TDS may repurchase Common Shares on the open market or at negotiated prices in private transactions, at prices approximating then existing market prices. TDS may use repurchased shares to fund acquisitions and for other corporate purposes.

No TDS Common Shares were repurchased in the three months ended March 31, 2005. As of March 31, 2005, shares remaining available for repurchase under this authorization totaled 824,300. In the three months ended March 31, 2004, TDS repurchased 40,300 Common Shares under this authorization for an aggregate purchase price of $2.8 million, representing an average per share price of $69.82, including commissions. An additional $5.6 million was paid in January 2004 to settle repurchases that occurred at the end of December 2003.

U.S. Cellular s primary common stock repurchase program expired in December 2003. However, U.S. Cellular has an ongoing authorization to repurchase a limited amount of U.S. Cellular Common Shares on a quarterly basis, primarily for use in employee benefit plans. No U.S. Cellular Common Shares were repurchased in the first quarter of 2005 or 2004.

TDS paid total dividends on its Common Shares and Preferred Shares of $10.1 million in the first three months of 2005 and $9.5 million in 2004. TDS paid quarterly dividends per share of $0.175 in 2005 and $0.165 in 2004. Because the stock dividend of Special Common Shares in the Distribution discussed below will double the number of shares of common stock that are outstanding, following the stock dividend, the TDS Board of Directors currently intends to establish a quarterly cash dividend on all classes of common stock in an amount equal to $0.0875 per share, which is one-half of the current quarterly dividend rate. Shareholders of common stock are entitled to dividends only if declared by the TDS Board of Directors.

Stock Dividend

On February 17, 2005, the TDS Board unanimously approved, and on April 11, 2005, the TDS shareholders approved an amendment (the Amendment) to the Restated Certificate of Incorporation of TDS to increase the authorized number of Special Common Shares of TDS from 20,000,000 to 165,000,000. Following such approval, the Amendment was filed with the Secretary of State of Delaware and became effective on April 11, 2005.

On February 17, 2005, the TDS Board also approved a distribution of one Special Common Share in the form of a stock dividend with respect to each outstanding Common Share and Series A Common Share of TDS (the Distribution), which will be effective May 13, 2005 to shareholders of record on April 29, 2005.

Following effectiveness of the Distribution, at some time in the future TDS may possibly offer to issue Special Common Shares in exchange for all of the Common Shares of U.S. Cellular which are not owned by TDS (a Possible U.S. Cellular Transaction). TDS currently owns approximately 82% of the shares of common stock of U.S. Cellular. A Possible U.S. Cellular Transaction would cause U.S. Cellular to become a wholly owned subsidiary of TDS. TDS has set no time frame for a Possible U.S. Cellular Transaction and there are no assurances that a transaction will occur.

Contractual and Other Obligations

Except as described below, there has been no material change in the resources required for scheduled repayment of obligations from the table of Contractual and Other Obligations included in the Management s Discussion and Analysis of Results of Operations and Financial Condition included in TDS s Annual Report on Form 10-K/A for the year ended December 31, 2004.

On March 31, 2005, TDS issued $116.25 million in aggregate principal amount of unsecured 6.625% senior notes due March 31, 2045. Interest on the notes is payable quarterly. TDS may redeem the notes, in whole or in part, at any time on or after March 31, 2010, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. The net proceeds from this offering, after deducting underwriting discounts, were approximately $112.6 million.

On March 31, 2005, TDS Telecom subsidiaries repaid approximately $105.6 million in principal amount of notes to the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB) plus accrued interest of $0.6 million. TDS Telecom subsidiaries paid prepayment penalties of $0.6 million associated with these repayments. Unamortized debt issuance costs related to the notes totaling $0.1 million were expensed and included in other income (expense), net in the Statement of Operations. The RUS and RTB debt, held at individual TDS Telecom ILEC companies, had a weighted average interest rate of 5.5% and maturity of approximately 12 years.

TDS redeemed $17.2 million of medium-term notes in January and February of 2005 which carried interest rates of 9.25 9.35%.

The following table shows the increases and decreases in contractual and other obligations, as presented in the Annual Report on Form 10-K/A for the year ended December 31, 2004, as a result of the debt transactions described above:

	Increase (Decrease) of Principal Payments Due by Period			
(Dollars in millions)	Additional Long-Term Debt Obligations (1)	Weighted-Avg. Interest Rates on Additional Long-Term Debt Obligations	Long-Term Debt Principal Repayments (2)	Weighted-Avg. Interest Rates on Long-Term Debt Repayments
Less than 1 year	$		$ (22.5)	(8.4)%
2 3 years			(13.7)	(5.5)%
4 5 years			(14.3)	(5.5)%
More than 5 Years	116.25	6.625%	(72.3)	(5.5)%
Total	$ 116.25	6.625%	$ (122.8)	(6.0)%

(1) Issuance date was March 31, 2005.

(2) Redemption date was March 31, 2005.

Off-Balance Sheet Arrangements

TDS has no transactions, agreements or contractual arrangements with unconsolidated entities involving off-balance sheet arrangements, as defined by SEC rules, that have or are reasonably likely to have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, revenues or expenses.

TDS has certain variable interests in investments in unconsolidated entities where TDS holds a minority interest. The investments in unconsolidated entities totaled $213.8 million as of March 31, 2005 and are accounted for using either the equity or cost method. TDS s maximum loss exposure for these variable interests is limited to the aggregate carrying amount of the investments.

Indemnity Agreements. TDS enters into agreements in the normal course of business that provide for indemnification of counterparties. These include certain asset sales and financings with other parties. The term of the indemnification varies 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 regarding certain contingent liabilities at Aerial Communications for the period prior to Aerial s merger into VoiceStream Wireless in 2000. As of March 31, 2005, TDS has recorded liabilities of $9.3 million relating to this indemnity.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

TDS prepares its consolidated financial statement in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). TDS s significant accounting policies are discussed in detail in Note 1 to the consolidated financial statements included in its Annual Report on Form 10-K/A for the year ended December 31, 2004.

The preparation of financial statements in accordance with U.S. GAAP requires TDS to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. TDS bases its estimates on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from estimates under different assumptions or conditions.

TDS believes the following critical accounting estimates reflect its more significant judgments and estimates used in the preparation of its consolidated financial statements. TDS s senior management has discussed the development and selection of each of the following accounting policies and estimates and the following disclosures with the audit committee of TDS s Board of Directors.

Licenses and Goodwill

At March 31, 2005, TDS reported $1,358.7 million of licenses and $843.4 million of goodwill, as a result of the acquisitions of wireless licenses and markets, and the acquisition of operating telephone companies. Licenses include those expected to be received from the FCC in the second quarter of 2005 that were won by Carroll Wireless in the FCC wireless license auction completed in February 2005 and license rights related to licenses that will be received when the AT&T Wireless exchange transaction is fully completed.

Licenses and goodwill must be reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. TDS performs the annual impairment review on licenses and goodwill during the second quarter. There can be no assurance that upon review at a later date material impairment charges will not be required.

The intangible asset impairment test consists of comparing the fair value of the intangible asset to the carrying amount of the intangible asset. If the carrying amount exceeds the fair value, an impairment loss is recognized for the difference. The goodwill impairment test is a two-step process. The first step compares the fair value of the reporting unit to its carrying value. If the carrying amount exceeds the fair value, the second step of the test is performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. To calculate the implied fair value of goodwill, an enterprise allocates the fair value of the reporting unit to all of the assets and liabilities of that reporting unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities of the reporting unit is the implied fair value of goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized for that difference.

The fair value of an intangible asset and reporting unit goodwill is the amount at which that asset or reporting unit could be bought or sold in a current transaction between willing parties. Therefore, quoted market prices in active markets are the best evidence of fair value and should be used when available. If quoted market prices are not available, the estimate of fair value is based on the best information available, including prices for similar assets and the use of other valuation techniques. Other valuation techniques include present value analysis, multiples of earnings or revenue or a similar performance measure. The use of these techniques involves assumptions by management about factors that are highly uncertain including future cash flows, the appropriate discount rate and other inputs. Different assumptions for these inputs or valuation methodologies could create materially different results.

U.S. Cellular tests goodwill for impairment at the level of reporting referred to as a reporting unit. U.S. Cellular has identified five reporting units pursuant to paragraph 30 of SFAS No. 142, Goodwill and Other Intangible Assets. The five reporting units represent five geographic groupings of FCC licenses, constituting five geographic service areas. U.S. Cellular combines its FCC licenses into five units of accounting for purposes of testing the licenses for impairment pursuant to Emerging Issues Task Force Issue 02-7, Units of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets (EITF 02-7), and SFAS No. 142, using the same geographic groupings as its reporting units.

U.S. Cellular prepares valuations of each of the reporting units for purposes of goodwill impairment testing. A discounted cash flow approach is used to value each of the reporting units, using value drivers and risks specific to each individual geographic region. The cash flow estimates incorporate assumptions that market participants would use in their estimates of fair value. Key assumptions made in this process are the selection of a discount rate, estimated future cash flow levels, projected capital expenditures and selection of terminal value multiples.

U.S. Cellular also prepares valuations of similar groupings of FCC licenses (units of accounting pursuant to EITF 02-7) using an excess earnings methodology, through the use of a discounted cash flow approach. This excess earnings methodology estimates the fair value of the intangible assets (FCC license units of accounting) by measuring the future cash flows of the license groups, reduced by charges for contributory assets such as working capital, trademarks, existing subscribers, fixed assets, assembled workforce and goodwill.

TDS Telecom has recorded goodwill primarily as a result of the acquisition of operating telephone companies. TDS Telecom has assigned goodwill to its incumbent local exchange carrier reporting unit. This goodwill was valued using a multiple of cash flow valuation technique.

TDS Telecom s competitive local exchange carrier has two reporting units for purposes of impairment testing as defined by SFAS No. 142. The larger reporting unit was valued using a market approach and the smaller reporting unit was valued using an income approach. The market approach compares the reporting unit to similar companies whose securities are actively traded. Ratios or multiples of value relative to certain significant financial measures, such as revenue and earnings, are developed based upon the comparable companies. The valuation multiples are applied to the appropriate financial measures of the reporting unit to indicate its value. The income approach uses a discounted cash flow analysis based on value drivers and risks specific to its reporting unit. The cash flow estimates incorporate assumptions that market participants would use in their estimates of fair value. Key assumptions made in this process were the selection of a discount rate, estimated future cash flow levels, projected capital expenditures and determination of terminal value.

Asset Retirement Obligations

SFAS No. 143, Accounting for Asset Retirement Obligations, requires entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to retire the asset and the liability recorded is recognized in the Statement of Operations as a gain or loss.

The calculation of the asset retirement obligation for TDS is a critical accounting estimate because changing the factors used in calculating the obligation could result in larger or smaller estimated obligations that could have a significant impact on TDS s results of operations and financial condition. Such factors may include probabilities or likelihood of remediation, cost estimates, lease renewals and salvage values. Actual results may differ materially from estimates under different assumptions or conditions.

U.S. Cellular is subject to asset retirement obligations associated primarily with its cell sites, retail sites and office locations. Asset retirement obligations include costs to remediate leased land on which U.S. Cellular s cell sites and switching offices are located. U.S. Cellular is also required to return leased retail store premises and office space to their pre-existing conditions. U.S. Cellular determined that it had an obligation to remove long-lived assets in its cell sites, retail sites and office locations as described by SFAS No. 143, and has recorded a $75.0 million liability, included in other deferred liabilities and credits on the Balance Sheet, at March 31, 2005.

TDS Telecom s incumbent local telephone companies follow the provisions of SFAS No. 71, and therefore conform to the regulatory accounting principles as prescribed by the respective state public utility commissions and the FCC, and where applicable, accounting principles generally accepted in the United States of America. TDS Telecom s incumbent local telephone carriers have recorded an asset retirement obligation in accordance with the requirements of SFAS No. 143 and a regulatory liability for the amounts of costs of removal that state public utility commissions have required to be recorded for regulatory accounting purposes which are in excess of the amounts required to be recorded in accordance with SFAS No. 143. These amounts combined make up TDS Telecom s asset retirement obligation amounts included in other deferred liabilities and credits on the Balance Sheet. The asset retirement obligation calculated in accordance with the provisions of SFAS No. 143 at March 31, 2005 was $34.3 million. The regulatory liability in excess of the amounts required to be recorded in accordance with SFAS No. 143 at March 31, 2005 was $31.9 million.

TDS Telecom s competitive local exchange carrier does not have a material legal obligation to remove long-lived assets as described by SFAS No. 143. TDS Telecom is reviewing FASB Interpretation No. 47 to determine the impact, if any, on the competitive local exchange carrier operations.

The table below summarizes the changes in asset retirement obligations during the first three months of 2005.

	U.S. Cellular (As Restated)	TDS Telecom (Dollars in thousands)	TDS Consolidated (As Restated)
Beginning Balance December 31, 2004	$ 72,575	$ 65,000	$ 137,575
Additional liabilities accrued	678	1,467	2,145
Accretion expense	1,792		1,792
Costs of removal incurred in 2005		(227)	(227)
Ending Balance March 31, 2005	$ 75,045	$ 66,240	$ 141,285

Income Taxes

The accounting for income taxes, the amounts of income tax assets and liabilities and the related income tax provision are critical accounting estimates because such amounts are significant to TDS s financial condition, changes in financial condition and results of operations.

The preparation of the consolidated financial statements requires TDS to calculate a provision for income taxes. This process involves estimating the actual current income tax liability together with assessing temporary differences resulting from the different treatment of items, such as depreciation expense, for tax and accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included within the consolidated Balance Sheet. TDS must then assess the likelihood that deferred tax assets will be recovered from future taxable income and to the extent TDS believes that recovery is not likely, establish a valuation allowance. TDS s management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. TDS s current net deferred tax asset totaled $40.5 million, and $43.9 million, as of March 31, 2005 and December 31, 2004, respectively. The net current deferred tax asset primarily represents the deferred tax effects of federal net operating loss carryforwards expected to be utilized in 2005 and the allowance for doubtful accounts on accounts receivable.

The temporary differences that gave rise to the noncurrent deferred tax assets and liabilities as of March 31, 2005 and December 31, 2004 are as follows:

	March 31, 2005 (As Restated)	December 31, 2004 (As Restated)
	(Dollars in thousands)	
Deferred Tax Asset noncurrent		
Net operating loss carryforwards	$ 56,459	$ 61,977
Derivative instruments	349,533	487,216
Other	22,375	38,815
	428,367	588,008
Less valuation allowance	(51,079)	(55,305)
Total Deferred Tax Asset	377,288	532,703
Deferred Tax Liability noncurrent		
Property, plant and equipment	433,895	428,355
Licenses	215,223	241,699
Marketable equity securities	1,137,897	1,284,872
Partnership investments	71,838	66,432
Total Deferred Tax Liability	1,858,853	2,021,358
Net Deferred Income Tax Liability	$ 1,481,565	$ 1,488,655

State net operating loss carryforwards are available to offset future taxable income primarily of the individual subsidiaries which generated the losses. Certain subsidiaries that are not included in the federal consolidated income tax return, but file separate federal tax returns, had federal net operating loss carryforwards available to offset future taxable income. A valuation allowance was established for a portion of the state and federal net operating loss carryforwards since it is more likely than not a portion of such carryforwards will expire before they can be utilized.

The deferred income tax liability relating to marketable equity securities totaled $1,137.9 million and $1,284.9 million, as of March 31, 2005 and December 31, 2004, respectively. These amounts represent deferred income taxes calculated on the difference between the book basis and the tax basis of the marketable equity securities. Income taxes will be payable when TDS disposes of the marketable equity securities.

TDS is routinely subject to examination of its income tax returns by the Internal Revenue Service (IRS) and other tax authorities. TDS periodically assesses the likelihood of adjustments to its tax liabilities resulting from these examinations to determine the adequacy of its provision for income taxes, including related interest. TDS s management judgment is required in assessing the eventual outcome of these examinations. Changes to such assessments affect the calculation of TDS s income tax expense in the period such a change is made.

In the event of an increase in the value of tax assets or a decrease in tax liabilities, TDS would decrease the income tax expense or increase the income tax benefit by an equivalent amount. In the event of a decrease in the value of tax assets or an increase in tax liabilities, TDS would increase the income tax expense or decrease the income tax benefit by an equivalent amount.

Property, Plant and Equipment

U.S. Cellular and TDS Telecom s competitive local exchange carrier operations provide for depreciation using the straight-line method over the estimated useful lives of the assets. TDS Telecom s incumbent local exchange carrier operations provide for depreciation on a group basis according to depreciable rates approved by state public utility commissions. Annually, U.S. Cellular and TDS Telecom review their property, plant and equipment lives to ensure that the estimated useful lives are appropriate. The estimated useful lives of property, plant and equipment are critical accounting estimates because changing the lives of assets can result in larger or smaller charges for depreciation expense. Factors used in determining useful lives include technology changes, regulatory requirements, obsolescence and type of use.

U.S. Cellular reviews the useful lives of its property, plant and equipment, including leasehold improvements, annually during the first quarter. The useful lives of all leasehold improvements range from three to ten years; for leasehold improvements related to cell site leases entered into in 2005, the useful life was changed to four years, compared to ten years on leasehold improvements related to cell site leases entered into prior to 2005. This change better approximates the shorter of the assets economic lives or the specific lease terms.

In the first quarter of 2004, U.S. Cellular adjusted the useful lives of TDMA radio equipment, switch software and antenna equipment. TDMA radio equipment lives were adjusted to be fully depreciated by the end of 2008, which is the latest date the wireless industry will be required by regulation to support analog service. U.S. Cellular currently uses TDMA radio equipment to support analog service, and expects to have its digital radio network fully migrated to CDMA 1XRTT or some future generation of CDMA technology by that time. The useful lives for certain switch software were reduced to one year from three years and antenna equipment lives were reduced from eight years to seven years in order to better align the useful lives with the actual length of time the assets are in use.

TDS Telecom did not change the useful lives of its property, plant and equipment in the three months ended March 31, 2005.

TDS periodically evaluates potential impairment of its long-lived assets, including property, plant and equipment, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. If indicators of impairment exist and the amount of impairment is quantifiable, TDS would write down the net book value of its long lived assets to the determined fair market value with the difference recorded as a loss in the Statement of Operations. TDS reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be fully recoverable. The tangible asset impairment test is a two-step process. The first step compares the carrying value of the assets with the undiscounted cash flows over the remaining asset life. If the carrying value of the assets is greater than the undiscounted cash flow, the second step of the test is performed to measure the amount of impairment loss. The second step compares the estimated fair value of the assets to the carrying value of the assets. An impairment loss is recognized for the difference between the fair value of the assets (less costs to sell) and the carrying value of the assets.

The fair value of a tangible asset is the amount at which that asset could be bought or sold in a current transaction between willing parties. Therefore, quoted market prices in active markets are the best evidence of fair value and should be used when available. If quoted market prices are not available, the estimate of fair value is based on the best information available, including prices for similar assets and the use of other valuation techniques. A present value analysis of cash flow scenarios is often the best available valuation technique with which to estimate the fair value of the long-lived asset. The use of this technique involves assumptions by management about factors that are highly uncertain including future cash flows, the appropriate discount rate, and other inputs. Different assumptions for these inputs or valuation methodologies could create materially different results.

Other valuation techniques include a market approach and income approach. The market approach compares the asset group to similar companies whose securities are actively traded. Ratios or multiples of value relative to certain significant financial measures, such as revenue and earnings, are developed based upon the comparable companies. The valuation multiples are applied to the appropriate financial measures of the asset group to indicate its value. The income approach uses a discounted cash flow analysis based on value drivers and risks specific to its asset group. The cash flow estimates incorporate assumptions that market participants would use in their estimates of fair value. Key assumptions made in this process were the selection of a discount rate, estimated future cash flow levels, projected capital expenditures, and determination of terminal value.

Contingencies, Indemnities and Commitments

Contingent obligations, including indemnities, litigation and other possible commitments are accounted for in accordance with SFAS No. 5, Accounting for Contingencies, which requires that an estimated loss be recorded if it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accordingly, those contingencies that are deemed to be probable and where the amount of such settlement is reasonably estimable are accrued in the financial statements. 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. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been or will be incurred, even if the amount is not estimable. The assessment of contingencies is a highly subjective process that requires judgments about future events. Contingencies are reviewed at least quarterly to determine the adequacy of the accruals and related financial statement disclosure. The ultimate settlement of contingencies may differ materially from amounts accrued in the financial statements.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following persons are partners of Sidley Austin Brown & Wood LLP, the principal law firm of TDS and its subsidiaries: Walter C.D. Carlson, a trustee and beneficiary of a voting trust that controls TDS, the non-executive chairman of the board and member of the board of directors of TDS and a director of U.S. Cellular, a subsidiary of TDS; William S. DeCarlo, the General Counsel of TDS and an Assistant Secretary of TDS and certain subsidiaries of TDS; and Stephen P. Fitzell, the General Counsel of U.S. Cellular and/or an Assistant Secretary of certain subsidiaries of TDS. Walter C.D. Carlson does not provide legal services to TDS or its subsidiaries.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

SAFE HARBOR CAUTIONARY STATEMENT

This Management s Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain statements that are not based on historical fact, including the words believes , anticipates, intends, expects, and similar words. These statements constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include the following:

Increases in the level of competition in the markets in which TDS operates, or wireless for wireline substitution, could adversely affect TDS s revenues or increase its costs to compete.

Consolidation in the wireless industry may create stronger competitors both operationally and financially which could adversely affect TDS s revenues and increase its costs to compete.

Consolidation of long distance carriers could result in TDS having to pay more for long distance services which could increase TDS s cost of doing business.

Advances or changes in telecommunications technology, such as Voice over Internet Protocol, could render certain technologies used by TDS obsolete, could reduce TDS s revenues or could increase TDS s cost of doing business.

Changes in the telecommunications regulatory environment, or a failure to timely or fully comply with any regulatory requirements, such as local number portability and E-911 services, could adversely affect TDS s financial condition, results of operations or ability to do business.

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 an adverse effect on TDS s financial condition, results of operations and cash flows.

Changes in U.S. Cellular s enterprise value, changes in the supply or demand of the market for wireless licenses or telephone companies, adverse developments in the TDS businesses or the industries in which TDS is involved and/or other factors could require TDS to recognize impairments in the carrying value of TDS s license *costs, goodwill and/or physical assets.*

Early redemptions of debt or repurchases of debt, changes in prepaid forward contracts, operating leases, purchase obligations or other factors or developments could cause the amounts reported under Contractual Obligations in TDS s Annual Report on Form 10-K/A for the year ended December 31, 2004, or this Quarterly Report on Form 10-Q/A to be different from the amounts actually incurred.

Changes in accounting standards or TDS s accounting policies, estimates and/or in the assumptions underlying the accounting estimates, including those described under Application of Critical Accounting Policies and Estimates, could have an adverse effect on TDS s financial condition and results of operations.

Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on TDS s financial condition, results of operations or ability to do business.

Costs, integration problems or other factors associated with acquisitions/divestitures of properties and/or licenses could have an adverse effect on TDS s financial condition or results of operations.

Changes in prices, the number of customers, average revenue per unit, penetration rates, churn rates, selling expenses, net customer retention costs associated with wireless number portability and local number portability, roaming rates, access minutes of use, the mix of products and services offered or other business factors could have an adverse effect on TDS s business operations.

Changes in roaming partners rates for voice services and the lack of standards and roaming agreements for wireless data products could place U.S. Cellular s service offerings at a disadvantage to those offered by other wireless carriers with more nationwide service territories, and could have an adverse effect on TDS s operations.

Changes in competitive factors with national and global wireless carriers could result in product and cost disadvantages and could have an adverse effect on TDS s operations.

Changes in guidance or interpretations of accounting requirements, changes in industry practice or changes in management assumptions could require amendments to or restatements of disclosures or financial information included in this or prior filings with the SEC.

Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions, changes in TDS s credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development and acquisition programs.

Changes in income tax rates, tax laws, regulations or rulings, or federal and state tax assessments could have an adverse effect on TDS s financial condition and results of operations.

War, conflicts, hostilities and/or terrorist attacks could have an adverse effect on TDS s businesses.

Changes in general economic and business conditions, both nationally and in the markets in which TDS operates, including difficulties by telecommunications companies, could have an adverse effect on TDS s businesses.

Changes in facts or circumstances, including new or additional information that affects the calculation of accrued liabilities for contingent obligations under guarantees, indemnities or otherwise, could require TDS to record charges in excess of amounts accrued on the financial statements, if any, which could have an adverse effect on TDS s financial condition and results of operations.

A material weakness in the effectiveness of internal control over financial reporting could result in inaccurate financial statements or other disclosures or permit fraud, which could have an adverse effect on TDS s business, results of operations and financial condition. Assurance cannot be provided as to when such material weaknesses disclosed herein will be remediated.

The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from handsets, wireless data devices and/or cell sites cause harmful health consequences, including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on TDS s wireless business operations, TDS s financial condition and results of operations.

Any of the foregoing events or other events could cause revenues, customer additions, operating income, capital expenditures and or any other financial or statistical information to vary from TDS s forward estimates included in this report by a material amount.

TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Readers should evaluate any statements in light of these important factors.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

Long-term Debt

TDS is subject to market risks due to fluctuations in interest rates and equity markets. The majority of TDS s debt, excluding long-term debt related to the forward contracts, is in the form of long-term, fixed-rate notes with original maturities ranging up to 40 years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of such instruments. The long-term debt related to the forward contracts consists of both variable-rate debt and fixed-rate zero coupon debt. The variable-rate forward contracts require quarterly interest payments that are dependent on market interest rates. Increases in interest rates will result in increased interest expense. As of March 31, 2005, TDS had not entered into any significant financial derivatives to reduce its exposure to interest rate risks.

Reference is made to the disclosure under Market Risk Long Term Debt in TDS s Annual Report on Form 10-K for the year ended December 31, 2004, for additional information about the annual requirements of principal payments, the average interest rates, and the estimated fair values of long-term debt.

On March 31, 2005, TDS issued $116.25 million in aggregate principal amount of unsecured 6.625% senior notes due March 31, 2045. Interest on the notes is payable quarterly. TDS may redeem the notes, in whole or in part, at any time on and after March 31, 2010, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. The net proceeds from this offering, after deducting underwriting discounts, were approximately $112.6 million.

TDS Telecom repaid notes with the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB) totaling $105.6 million on March 31, 2005. TDS also paid accrued interest of $0.6 million and prepayment penalties of $0.6 million associated with these repayments. The RUS and RTB debt, held at individual TDS Telecom ILEC companies, had a weighted average interest rate of 5.5% and maturity of approximately 12 years.

TDS redeemed $17.2 million of medium-term notes in January and February of 2005 which carried interest rates of 9.25 9.35%.

The following table shows the annual requirements for principal payments on such 2005 long-term debt transactions:

	Increase (Decrease) of Principal Payments Due by Period			
(Dollars in millions)	**Additional Long-Term Debt Obligations (2)**	**Weighted-Avg. Interest Rates on Additional Long-Term Debt Obligations**	**Long-Term Debt Principal Repayments (2)**	**Weighted-Avg. Interest Rates on Long-Term Debt Repayments**

2005	$			$	(22.5)	(8.4)%
2006					(6.7)	(5.5)%
2007					(7.0)	(5.5)%
2008					(7.1)	(5.5)%
2009					(7.2)	(5.5)%
After 5 Years		116.25	6.625%		(72.3)	(5.5)%
Total	$	116.25	6.625%	$	(122.8)	(6.0)%

(1) Issuance date was March 31, 2005.

(2) Redemption date was March 31, 2005.

Marketable Equity Securities and Derivatives

TDS maintains a portfolio of available-for-sale marketable equity securities, the majority of which are the result of sales or trades of non-strategic assets. The market value of these investments aggregated $3,042.0 million at March 31, 2005. As of March 31, 2005, the net unrealized holding gain, net of tax and minority interest included in accumulated other comprehensive income totaled $894.7 million.

Subsidiaries of TDS and U.S. Cellular have entered into forward contracts related to the marketable equity securities that they hold. TDS and U.S. Cellular have provided guarantees to the counterparties which provide assurance to the counterparties that all principal and interest amounts are paid when due. The 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 cost basis thereby eliminating the risk of an other than temporary loss being recorded on these contracted securities.

Under the terms of the forward contracts, TDS and U.S. Cellular continue to own the contracted shares and will receive dividends paid on such contracted shares, if any. The forward contracts mature from May 2007 to September 2008 and, 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 limit downside risk and upside potential on the contracted shares. The collars are typically adjusted for any changes in dividends on the contracted 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. If cash is delivered in the settlement of the forward contract, TDS and U.S. Cellular would incur a current tax liability or a deferred tax benefit, based on the difference between the amount of cash paid in the settlement and the net amount realized through maturity.

Deferred taxes have been provided for the difference between the carrying value and the income tax basis of the marketable equity securities and are included in deferred tax liabilities on the Balance Sheet. Such deferred tax liabilities totaled $1,137.9 million at March 31, 2005.

The following table summarizes certain details surrounding the contracted securities as of March 31, 2005.

Security	Shares	Collar (1) Downside Limit (Floor)	Upside Potential (Ceiling)	Loan Amount (000s)
VeriSign	2,361,333	$ 8.82	$ 11.46	$ 20,819
Vodafone (2)	12,945,915	$15.07 - $16.07	$18.89 - $21.58	201,038
Deutsche Telekom	131,461,861	$10.74 - $12.41	$14.21 - $17.17	1,532,257
				1,754,114
Unamortized debt discount				60,133
				$ 1,693,981

(1) The per share amounts represent the range of floor and ceiling prices of all securities monetized.

(2) U.S. Cellular owns 10.2 million and TDS Telecom owns 2.7 million Vodafone American Depositary Receipts.

The following analysis presents the hypothetical change in the fair value of marketable equity securities and derivative instruments at March 31, 2005, using the Black-Scholes model, assuming hypothetical price fluctuations of plus and minus 10%, 20% and 30%. The table presents hypothetical information as required by SEC rules. Such information should not be inferred to suggest that TDS has any intention of selling any marketable equity securities or canceling any derivative instruments.

	Valuation of investments assuming indicated decrease			March 31, 2005	Valuation of investments assuming indicated increase		
(Dollars in millions)	-30%	-20%	-10%	Fair Value	+10%	+20%	+30%
Marketable Equity Securities	$ 2,129.4	$ 2,433.6	$ 2,737.8	$ 3,042.0	$ 3,346.2	$ 3,650.4	$ 3,954.6
Derivative Instruments (1)	$ (106.3)	$ (354.4)	$ (603.2)	$ (863.5)	$ (1,158.1)	$ (1,432.1)	$ (1,743.3)

(1) Represents the fair value of the derivative instruments assuming the indicated increase or decrease in the underlying securities.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

TDS maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to TDS s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rule 13a-15(b), TDS carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of TDS s disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, management concluded that TDS s disclosure controls and procedures were not effective as of March 31, 2005, at the reasonable assurance level, because of the material weaknesses described below. Notwithstanding the material weaknesses that existed as of March 31, 2005, management has concluded that the consolidated financial statements included in this Quarterly Report on Form 10-Q/A present fairly, in all material respects, the financial position, results of operation and cash flows of TDS and its subsidiaries in conformity with accounting principles generally accepted in the United States of America.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. In connection with the restatement as discussed in Note 1 to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q/A, the following material weaknesses were identified in TDS s internal control over financial reporting as of December 31, 2004 which continued to exist at March 31, 2005:

1. TDS did not have a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with its financial reporting requirements and the complexity of its operations and transactions. This control deficiency contributed to the material weaknesses discussed in items 2 and 3 below and the restatement of TDS s annual consolidated financial statements for 2004, 2003 and 2002, the interim financial statements for all quarters in 2004 and 2003, the first and second quarter financial statements for 2005, as well as adjustments, including audit adjustments, to the third quarter of 2005 and the 2005 annual consolidated financial statements. Additionally, this control deficiency could result in a misstatement of substantially all accounts and disclosures that would result in a material misstatement to TDS s interim or annual consolidated financial statements that would not be prevented or detected.

2. TDS did not maintain effective controls over its accounting for certain vendor contracts. Specifically, effective controls were not designed and in place to ensure that certain vendor contracts were raised to the appropriate level of accounting personnel or that accounting personnel reached the appropriate conclusions in order to accurately and timely record the effects of the contracts in conformity with generally accepted accounting principles. This control deficiency primarily affected, network operations expense, selling, general and administrative expense, accounts payable, other deferred charges and accrued liabilities. This control deficiency resulted in the restatement of TDS s annual consolidated financial statements for 2004, 2003 and 2002, the interim financial statements for all quarters in 2004 and 2003, the first and second quarter financial statements for 2005, as well as adjustments, including audit adjustments, to the third quarter of 2005 and the 2005 annual consolidated financial statements. Additionally, this control deficiency could result in a misstatement of the aforementioned accounts that would result in a material misstatement to TDS s interim or annual consolidated financial statements that would not be prevented or detected.

3. TDS did not maintain effective controls over the completeness, accuracy, presentation and disclosure of its accounting for income taxes, including determination of income tax expense, income taxes payable, liabilities accrued for tax contingencies and deferred income tax assets and liabilities. Specifically, TDS did not have effective controls designed and in place to accurately calculate the income tax expense and income tax payable, monitor the difference between the income tax basis and the financial reporting basis of assets and liabilities and reconcile the resulting basis difference to its deferred income tax asset and liability balances. This control deficiency resulted in the restatement of TDS s annual consolidated financial statements for 2004, 2003 and 2002, the interim financial statements for all quarters in 2004 and 2003, the first and second quarter financial statements for 2005, as well as adjustments, including audit adjustments, to the third quarter of 2005 and the 2005 annual consolidated financial statements. Additionally, this control deficiency could result in a misstatement of the aforementioned accounts that would result in a material misstatement to TDS s interim or annual consolidated financial statements that would not be prevented or detected.

Remediation of Material Weaknesses in Internal Control Over Financial Reporting

Prior to the identification of the material weaknesses described above, TDS had begun the following processes to enhance its internal control over financial reporting:

Focus on Fundamentals

This program, initiated in the second quarter 2004, was a self-assessment of TDS s policies and processes surrounding reporting and financial analysis, internal controls, and implementation of new accounting pronouncements.

Controller Review Committee

The Controller Review Committee was formed in the fourth quarter of 2004 and consists of TDS s Corporate Controller and Assistant Corporate Controller, U.S. Cellular s Controller and TDS Telecom s Chief Financial Officer. The Committee meets regularly to discuss accounting treatment for current, unusual or nonrecurring matters. In addition, the Committee engaged external consultants to provide technical accounting training related to current accounting developments on a quarterly basis.

Enhancements and additions to technical accounting personnel

TDS a Vice President and Assistant Corporate Controller was hired in the second quarter of 2005; a Manager, Accounting and Reporting was added in the second quarter of 2005 and a Manager, External Reporting was added in the third quarter of 2005.

U.S. Cellular a Vice President and Controller was hired in the second quarter of 2005 and was designated as U.S. Cellular s principal accounting officer in the third quarter of 2005; a Director, Operations Accounting was hired in the second quarter of 2005 and a Manager, Accounting Policy was added in the first quarter of 2005.

TDS believes the above changes have improved its internal control over financial reporting.

Management is currently addressing each of the material weaknesses in internal control over financial reporting and is committed to remediating them as expeditiously as possible. Management will devote significant time and resources to the remediation effort. Management s remediation plans include the following:

Review of Existing Internal Control Over Financial Reporting TDS has engaged external consultants to assist in reviewing its existing internal control over financial reporting with the intent of improving the design and operating effectiveness of controls and processes. In addition, management has currently enhanced controls related to restatement items.

Training Management has engaged external consultants to assist TDS in developing and implementing a training program specific to the needs of accounting personnel.

Recruiting TDS is actively recruiting the necessary personnel to improve its internal control processes and enhance the overall level of expertise.

Finance Leadership Team   In late 2005, the Finance Leadership Team, consisting of key finance leaders from each of TDS s business units and Corporate headquarters, formed a Financial Infrastructure Committee. The Committee is planning for longer-term improvements in key business processes and support systems with an emphasis on preventive controls versus detective controls, and system-based controls versus manual controls.

Income Tax Accounting   TDS has engaged external tax advisors to assist in enhancing controls with respect to monitoring the difference between the income tax basis and financial reporting basis of assets and liabilities and reconciling the difference to the deferred income tax asset and liability balances. The scope of this project encompasses controls over income taxes on a TDS enterprise-wide basis, including U.S. Cellular. In addition, TDS is in the process of implementing a tax provisioning software which TDS believes will enhance its internal controls related to income taxes on a TDS enterprise-wide basis.

Accounting for Contracts   TDS has enhanced controls related to monitoring, review and communication of contract activity. These controls include additional monitoring procedures, enhanced review processes and increased communication.

Changes in Internal Control Over Financial Reporting

Except the addition of technical accounting personnel as discussed above, there were no changes in TDS s internal control over financial reporting during the quarter ended March 31, 2005, that have materially affected, or are reasonably likely to materially affect TDS s internal control over financial reporting. Also, as discussed herein, TDS has made or intends to make material changes to internal control over financial reporting in order to remediate the material weaknesses discussed above.

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

TDS is involved in a number of legal proceedings before the FCC and various state and federal courts. If TDS believes that a loss arising from such legal proceedings is probable and can be reasonably estimated, an amount is accrued in the financial statements for the estimated loss. If only a range of loss can be determined, the best estimate within that range is accrued; if none of the estimates within that range is better than another, the low end of the range is accrued. The assessment of 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 the accruals and related financial statement disclosure. The ultimate settlement of proceedings may differ materially from amounts accrued in the financial statements.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table provides certain information with respect to all purchases made by or on behalf of TDS, and any open market purchases made by any affiliated purchaser (as defined by the SEC) of TDS, of TDS Common Shares during the quarter covered by this Form 10-Q/A.

TDS PURCHASES OF COMMON SHARES (1)

Period	**(a) Total Number of Common Shares Purchased**	**(b) Average Price Paid per Common Share**	**(c) Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs**	**(d) Maximum Number of Common Shares that May Yet Be Purchased Under the Plans or Programs**
January 1 31, 2005		$		824,300
February 1 28, 2005				824,300
March 1 31, 2005				824,300
Total for or as of end of the quarter ended 3/31/05		$		824,300

(1) All of the above Common Shares were purchased under TDS s publicly announced Common Share repurchase program.

The following is additional information with respect to TDS s publicly announced Common Share repurchase program:

i. The date the program was announced was February 28, 2003 by press release.

ii. The share amount originally approved was 3,000,000 Common Shares (representing a reauthorization of 1,009,746 unpurchased shares under a program that was scheduled to expire in April 2003, plus 1,990,254 shares under a new authorization).

iii. The expiration date of the program is February 28, 2006.

iv. No stock repurchase program has expired during the quarter covered by this Form 10-Q/A.

v. TDS has not determined to terminate the foregoing stock repurchase program prior to expiration, or to cease making further purchases thereunder, during the quarter covered by this Form 10-Q/A.

Item 5. Other Information.

In lieu of filing a Form 8-K, under Item 2.03 Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of a Registrant, TDS is providing the following disclosure.

U.S. Cellular has borrowed $135.0 million against its Revolving Credit Facility as of March 31, 2005. The borrowings occurred throughout March 2005. U.S. Cellular anticipates repaying the amounts with future operating cash flows from operations or long-term debt financing. As of March 31, 2005, the notes range in maturity dates from two days to 30 days at rates ranging from 3.13% to 5.25%. The notes can be renewed when they come due based on the London InterBank Offered Rate (LIBOR) plus a contractual spread   30 basis points at March 31, 2005. The notes were used primarily to fund the obligations of U.S. Cellular and Carroll Wireless related to the purchase of $129.9 million of licenses in the FCC Auction that was completed in February 2005.

The foregoing description is qualified by reference to the description of the Revolving Credit Facility under Item 1.01 in U.S. Cellular s Current Report on Form 8-K dated December 9, 2004, and a copy of the Revolving Credit Facility, which is included as Exhibit 4.1 of U.S. Cellular s Current Report on such Form 8-K dated December 9, 2004 and is incorporated by reference herein.

Item 6. Exhibits

Exhibit 3.1   Restated Certificate of Incorporation of TDS, as amended. (Filed with Original Form 10-Q)

Exhibit 4.1   Restated Certificate of Incorporation of TDS, as amended, is included as Exhibit 3.1 hereto.

Exhibit 9.1   Amendment and Restatement (dated as of April 22, 2005) of the Voting Trust Agreement dated as of June 30, 1989 is hereby incorporated by reference to Amendment No. 3 to Schedule 13D filed by the Trustees of the Voting Trust with the Securities and Exchange Commission on May 2, 2005.

Exhibit 10.1   Amended and Restated 2004 Long-Term Incentive Plan, is hereby incorporated by reference to Exhibit 10.1 to TDS s Form 8-K dated April 11, 2005.

Exhibit 10.2   Amended and Restated 2003 Employee Stock Purchase Plan, is hereby incorporated by reference to Exhibit 10.2 to TDS s Form 8-K dated April 11, 2005.

Exhibit 10.3   Amended and Restated Non-Employee Director Compensation Plan, is hereby incorporated by reference to Exhibit 10.3 to TDS s Form 8-K dated April 11, 2005.

Exhibit 10.4 Form of Stock Option Award Agreement for John E. Rooney, is hereby incorporated by reference to Exhibit 10.1 to U.S. Cellular s Form 8-K dated March 31, 2005.

Exhibit 10.5 Form of Restricted Stock Award Agreement for John E. Rooney, is hereby incorporated by reference to Exhibit 10.2 to U.S. Cellular s Form 8-K dated March 31, 2005.

Exhibit 11 Computation of earnings per common share is included herein as Note 5 to the financial statements.

Exhibit 12 Statement regarding computation of ratios.

Exhibit 31.1 Chief Executive Officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 31.2 Chief Financial Officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 32.1 Chief Executive Officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 32.2 Chief Financial Officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

The foregoing exhibits include only the exhibits that relate specifically to this Form 10-Q/A or that supplement the exhibits identified in TDS s Form 10-K/A for the year ended December 31, 2004. Reference is made to TDS s Form 10-K for the year ended December 31, 2004 for a complete list of exhibits, which are incorporated herein except to the extent supplemented or superseded above.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TELEPHONE AND DATA SYSTEMS, INC.
(Registrant)

Date	April 26, 2006	/s/ LeRoy T. Carlson, Jr. LeRoy T. Carlson, Jr., President and Chief Executive Officer
Date	April 26, 2006	/s/ Sandra L. Helton Sandra L. Helton, Executive Vice President and Chief Financial Officer
Date	April 26, 2006	/s/ D. Michael Jack D. Michael Jack, Senior Vice President and Corporate Controller (Principal Accounting Officer)

Signature page for the TDS 2005 First Quarter Form 10-Q/A