TELEPHONE & DATA SYSTEMS INC /DE/
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

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

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x	Definitive Proxy Statement
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Telephone and Data Systems, Inc.
(Name of Registrant as Specified In Its Charter)

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

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TELEPHONE AND DATA SYSTEMS, INC.
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August 14, 2006

Please note: Due to the delay in filing our 2005 financial results, Telephone and Data Systems, Inc. will not produce a traditional annual report for 2005. Instead, the letter to shareholders from the Chairman and President follows below, and financial information constituting the 2005 annual report to shareholders is attached as an appendix to the proxy statement that follows this letter.

To Our Shareholders

In a very competitive industry, we re achieving strong results by doing business the TDS way providing outstanding service that drives customer satisfaction and sustainable, long-term success.

Many telecommunications companies talk about customer service and satisfaction. At TDS, by contrast, satisfying our customers is at the core of our business strategy. How do we do it? First, we provide services and products that customers really want. Second, we test each new offering thoroughly to ensure a quality experience. And finally, we build long-term relationships with customers by providing high-quality, reliable networks and delivering excellent sales and service support.

This commitment has enabled our largest business unit, U.S. Cellular, to achieve an average postpay churn rate below two percent for ten consecutive years. In addition, recent surveys by widely respected, independent organizations rank U.S. Cellular and TDS Telecom above most competitors in terms of customer satisfaction:

- U.S. Cellular received a ranking of Highest Overall Satisfaction Among Wireless Telephone Users in North Central Region in a Tie in J.D. Power and Associates 2005 U.S. Wireless Regional Customer Satisfaction Index Studysm

- TDS Telecom was ranked Highest in Residential All-Distance Telephone Customer Satisfaction in the North Central Region in J.D. Power and Associates 2005 Residential All-Distance Telephone Customer Satisfaction Studysm

- In Chicago U.S. Cellular s largest market the company received the highest performance ranking of any carrier in Consumer Reports 2005 cell services survey

2005 Overview: The TDS Companies

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

- To achieve a seven to ten percent compound annual revenue growth rate including acquisitions over five years

- To generate in each business unit a return on capital (ROC) that is greater than its weighted average cost of capital

- To maintain a strong, investment-grade credit rating

- To generate a total shareholder return that exceeds returns of comparable companies

TDS five-year compound annual growth rate in revenues through the end of 2005 was 11.2 percent. U.S. Cellular and TDS Metrocom, our competitive local exchange carrier (CLEC) business, continued to make progress toward their respective ROC goals. TDS Telecom, the company s incumbent local exchange (ILEC) business, achieved a 9 percent return on capital. As a result of solid performance from each business unit in 2005, TDS grew its consolidated revenues 7 percent. To further strengthen its financial position in 2005, the company repaid

$233 million owed to the government by TDS Telecom, and sold $116 million in 6.625 percent senior notes, taking advantage of favorable conditions in the capital markets. TDS also increased its quarterly dividend in 2005, for the 31st consecutive year.

In May 2005, to increase the company s strategic and financial flexibility, TDS issued to its shareholders a dividend of one TDS Special Common Share for each Common and Series A Common share they owned. Depending on future market and other conditions, TDS may offer to issue Special Common Shares to acquire the 19 percent of U.S. Cellular stock that it does not already own.

Completed restatement of financial results

As previously announced, TDS and U.S. Cellular restated financial results for the first and second quarters of 2005, the years ended Dec. 31, 2002-2004, each of the quarters of 2004 and 2003, and certain related financial data for the years 2001 and 2000. The restatement was completed on April 26, 2006. Both companies continue to review and improve their financial processes and controls and the levels of expertise in their accounting functions. We are applying the insights and lessons learned from this process to strengthen the financial reporting at TDS and U.S. Cellular.

U.S. Cellular Highlights

In 2005, U.S. Cellular made excellent progress on its objectives to: 1) differentiate by achieving high customer satisfaction, 2) strategically strengthen its regional footprint, and 3) compete aggressively at the local level by offering high-value calling plans.

U.S. Cellular added 477,000 net customers in 2005, not including acquisitions or divestitures, growing its total customer base to more than 5.4 million customers, an increase of 11 percent over 2004. The company grew service revenues from $2.6 billion in 2004 to more than $2.8 billion in 2005. U.S. Cellular continues to maintain an average postpay customer churn rate of 1.5 percent per month one of the lowest in the wireless industry. The company s commitment to customer service is clearly resulting in excellent customer loyalty.

Rapid growth in data services revenues

U.S. Cellular s continued expansion of its popular **easy**edge services resulted in data services revenues of $128 million a 91 percent increase over 2004. The new services include a portable version of the popular AOL® Instant Messenger ; intercarrier picture messaging through agreements with Verizon, Cingular, and ALLTEL; enhanced data roaming; and expanded **easy**edge content in Spanish for the rapidly growing Hispanic market.

Strong customer response to new services and phones

After thorough testing to ensure a high-quality customer experience, U.S. Cellular introduced popular new services and phones in 2005, including SpeedTalkSM push-to-talk service, BlackBerry® Wireless Solutions for personal and corporate use, the popular Motorola® RAZR handset with Bluetooth® capability, and several high-quality Samsung® handsets.

Strengthening the strategic footprint

A successful launch in St. Louis

Through its well-planned and well-executed move into St. Louis in July 2005, U.S. Cellular developed what is now the company s second-largest urban service area. The company built a 300 cell-site network from the ground up, ensuring a high-quality, reliable communications experience for customers, and had it available for roaming purposes by October 2004. U.S. Cellular s presence includes 20 company-owned retail stores and 30 agent-owned locations. The market is off to an excellent start and, importantly, more than 80 percent of the net customer additions to date in the St. Louis market are postpay. Postpay customers on average generate higher lifetime revenue (compared to prepaid customers) and are the principal focus of U.S. Cellular s customer satisfaction strategy.

Key properties added in Midwest and other markets

The 2005 property exchange with ALLTEL Corporation gave U.S. Cellular 15 Rural Service Areas (RSAs) in Kansas and Nebraska with a total population of 1.4 million, and a gain of 54,000 net customers,

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expanding its Midwest footprint. In return, ALLTEL received two markets in Idaho and $58 million in cash. In addition, Carroll Wireless, L.P., in which U.S. Cellular is a limited partner, was granted 16 licenses as a result of successful bids in the Federal Communication Commission s (FCC) Auction 58. These licenses cover areas that are contiguous with or overlap U.S. Cellular s existing markets in the Midwest and two other areas.

TDS Telecom Highlights

TDS Telecom made good progress on its key 2005 objectives to: 1) position for long-term revenue growth; 2) sustain market leadership by delivering outstanding customer service, which promotes customer satisfaction and loyalty; and 3) meet its financial commitments through both growth and process and productivity improvements. TDS Telecom s goal is to become the broadband provider of choice in its chosen markets, and to attract and retain customers by offering new broadband services and products that deliver desired value to customers.

TDS Telecom achieved consolidated revenue growth of 3 percent in 2005, to $906 million, with ILEC revenues up 1.7 percent, to $670 million, and CLEC revenues up 7 percent, to $241 million.

Rapid growth in high-speed data services

TDS Telecom increased its ILEC Digital Subscriber Line (DSL) accounts by 56 percent in 2005, and its CLEC DSL accounts by 26 percent. Total DSL connections grew by 31,000, to 101,900. TDS Telecom s bundling of DSL and other Internet services with long-distance plans continues to be a successful approach. At the end of 2005, seventy percent of the ILEC s lines were equipped for DSL.

Delivering on technology trials

In 2005, as part of its ongoing Fiber-to-the-Premises (FTTP) trial, TDS Telecom tested its own triple-play offerings of video, data, and voice services in two markets. The company also continues to market and sell EchoStar DISH Network services in its ILEC and CLEC markets in 28 states. To improve customer convenience and promote loyalty, DISH Network services are now bundled with other TDS Telecom services on one bill.

A leadership transition

Early in 2006, TDS Telecom announced that its current president and chief executive officer, James Barr III, will step down from that position at the end of 2006. Leadership of TDS Telecom will transition to the current chief operating officer, David A. Wittwer, who has more than 20 years of significant experience with TDS Telecom. Mr. Barr will remain active as CEO during 2006, guiding the implementation of key strategies and building on the positive momentum he and his team have generated during his successful 15 years leading the company. We thank Mr. Barr for his many substantial contributions to TDS, and look forward to a prosperous 2006 and beyond for TDS Telecom.

Valued Board Member

We would like to thank Kevin Mundt for his valuable service and many contributions to the TDS Board of Directors. Kevin served on the TDS Board for more than seven years, during challenging times for the telecommunications industry. His guidance and foresight served the company well.

Looking Forward: Key Initiatives

The TDS companies have a number of significant initiatives planned and in progress. Among these are the following:

U.S. Cellular

- Maintain postpay customer growth momentum and expand market share in recently developed markets. No new market launches are planned for the remainder of 2006.

- Improve profitability and generate free cash flow
- Expand the **easy**edge line of data services with additional profitable services
- Add new phones, widening the range of styles and features to meet the desires of more market segments
- Launch trials of EVDO (**Ev**olution **D**ata **O**ptimized) Release Zero services in the second half of 2006
- Streamline and standardize calling plans and maintain an industry-low postpay churn rate

TDS Telecom

- Strengthen its position as the broadband provider of choice
- Develop new services and applications for broadband customers and plan for long-term customer demand for substantial increases in broadband speed
- Extend trials of voice and data services over fixed wireless
- Aggressively market voice and data services bundled with DISH Network services
- Realign the organization structure to share resources, increase productivity, and focus on market growth opportunities
- Achieve progress on key regulatory matters, including intercarrier compensation, Universal Service Fund, and access to unbundled network elements

The TDS companies have a proven record of increasing customer satisfaction and enhancing processes to improve operating performance. In the remainder of 2006 and beyond, our 11,500 associates and employees will continue to dedicate their energy and talents to fulfilling the TDS mission of providing outstanding communications services to our customers, and meeting the needs of our shareholders, our people, and our communities.

Cordially yours,

Walter C.D. Carlson Chairman of the Board	LeRoy T. Carlson, Jr. President and Chief Executive Officer

TELEPHONE AND DATA SYSTEMS, INC.
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August 14, 2006

Dear Shareholders:

You are cordially invited to attend our 2006 annual meeting of shareholders on Tuesday, September 12, 2006, at 10:00 a.m., Chicago time, at The Standard Club, 320 South Plymouth Court, Chicago, Illinois. At the meeting, we will report on the plans and accomplishments of Telephone and Data Systems, Inc. (TDS).

The formal notice of the meeting and our board of directors proxy statement are enclosed. Appendix I to the proxy statement contains audited financial statements and certain other financial information for the year ended December 31, 2005, as required by the rules and regulations of the Securities and Exchange Commission (SEC). At our 2006 annual meeting, shareholders are being asked to take the following actions:

1. elect members of the board of directors; and

2. ratify the selection of independent registered public accountants for the current fiscal year.

The board of directors recommends a vote **FOR** its nominees for election as directors and for the proposal to ratify accountants.

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

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

Very truly yours,

Walter C.D. Carlson	LeRoy T. Carlson, Jr.
Chairman of the Board	President and Chief Executive Officer

Please help us avoid the expense of follow-up proxy mailings to shareholders by signing and returning the enclosed proxy card(s) promptly or vote on the Internet in accordance with the instructions set forth on the proxy card.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
AND
PROXY STATEMENT

TO THE SHAREHOLDERS OF

TELEPHONE AND DATA SYSTEMS, INC.

The 2006 annual meeting of shareholders of Telephone and Data Systems, Inc., a Delaware corporation, will be held at The Standard Club, 320 South Plymouth Court, Chicago, Illinois on Tuesday, September 12, 2006, at 10:00 a.m., Chicago time, for the following purposes:

1. To elect members of the board of directors. Your board of directors recommends that you vote **FOR** the directors nominated.

2. To consider and vote upon a proposal to ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accountants for the year ended December 31, 2006. Your board of directors recommends that you vote **FOR** this proposal.

3. To transact such other business as may properly come before the meeting or any adjournments thereof.

We are first mailing this notice of annual meeting and proxy statement to you on or about August 14, 2006.

We have fixed the close of business on August 7, 2006, as the record date for the determination of shareholders entitled to notice of, and to vote at, the annual meeting or any adjournments thereof.

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

SUMMARY

The following is a summary of the actions being taken at the 2006 annual meeting and does not include all of the information that may be important to you. You should carefully read this entire proxy statement and not rely solely on the following summary.

Proposal 1 Election of Directors

Under TDS s Restated Certificate of Incorporation, as amended, the terms of all incumbent directors will expire at the 2006 annual meeting.

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

Holders of Common Shares and Special Common Shares will vote together and be entitled to elect four directors. Your Board of Directors has nominated the following directors for election by the holders of Common Shares: Christopher D. O Leary, Mitchell H. Saranow, Martin L. Solomon and Herbert S. Wander.

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

Proposal 2 Ratification of Independent Registered Public Accountants for 2006

As in prior years, shareholders are being asked to ratify PricewaterhouseCoopers LLP as our independent registered public accountants for the year ended December 31, 2006.

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

VOTING INFORMATION

What is the record date for the meeting?

The close of business on August 7, 2006 is the record date for the determination of shareholders entitled to notice of, and to vote at, the annual meeting or any adjournments thereof.

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

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

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

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

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

No public market exists for the Preferred Shares. The Preferred Shares are divided into series, one of which is convertible into Common Shares. All holders of Preferred Shares vote together with the holders of Common Shares and Series A Common Shares, except in the election of directors. In the election of directors, all outstanding Preferred Shares vote together with the holders of Series A Common Shares.

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

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

Class of Stock	*Outstanding Shares*	*Votes per Share*	*Voting Power*	*Total Number of Directors Elected by Voting Group and Standing for Election*
Series A Common Shares	6,445,404	10	64,454,040	
Preferred Shares	38,627	1	38,627	
Subtotal			64,492,667	8
Common Shares	51,432,410	1	51,432,410	
Special Common Shares	57,782,076	1	57,782,076	
Subtotal			109,214,486	4
Total Directors				12

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

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

Class of Stock	*Outstanding Shares*	*Votes per Share*	*Total Voting Power*	*Percent*
Series A Common Shares	6,445,404	10	64,454,040	55.6 %
Common Shares	51,432,410	1	51,432,410	44.4 %
Preferred Shares	38,627	1	38,627	* %
			115,925,077	100.0 %

* Less than .1%

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

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

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

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

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

How may shareholders vote with respect to the ratification of independent registered public accountants for 2006 in Proposal 2?

Shareholders may, with respect to the proposal to ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accountants for 2006:

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

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

How does the TDS Voting Trust intend to vote?

The Voting Trust under Agreement dated June 30, 1989, as amended (the TDS Voting Trust), holds 6,085,021 Series A Common Shares on the record date, representing approximately 94.4% of the Series A Common Shares. By reason of such holding, the TDS Voting Trust has the voting power to elect all of the directors to be elected by the holders of Series A Common Shares and Preferred Shares and has approximately 52.5% of the voting power with respect to matters other than the election of directors. The Voting Trust holds 6,073,298 TDS Special Common Shares on the record date, representing approximately 10.5% of the Special Common Shares. By reason of such holding, the Voting Trust has approximately 5.6% of the voting power with respect to the election of directors elected by the holders of Common and Special Common Shares. The Voting Trust does not currently own Common Shares.

The TDS Voting Trust has advised us that it intends to vote:

- FOR the board of directors nominees for election by the holders of Series A Common Shares and Preferred Shares,

- FOR the board of directors   nominees for election by the holders of Common and Special Common Shares, and

- FOR the proposal to ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accountants for 2006.

How do I vote?

Proxies are being requested from the holders of Common Shares in connection with the election of four directors and the ratification of independent registered public accountants.

Proxies are being requested from the holders of Special Common Shares in connection with the election of four directors.

Proxies are being requested from the holders of Series A Common Shares and Preferred Shares in connection with the election of eight directors and the ratification of independent registered public accountants.

Whether or not you intend to be present at the meeting, please sign and mail your proxy in the enclosed self-addressed envelope to Computershare Investor Services, 2 North LaSalle Street, Chicago, Illinois 60602, or vote on the Internet in accordance with the instructions set forth on the proxy card. If you hold more than one class of our shares, you will find enclosed a separate proxy card for each holding. To assure that all your shares are represented, please vote on the Internet or return the enclosed proxy cards as follows:

- a white proxy card for Common Shares, including Common Shares owned through the TDS dividend reinvestment plan and through the TDS tax-deferred savings plan;

- A blue proxy card for Special Common Shares, including Special Common Shares owned through the TDS dividend reinvestment plan and through the TDS tax-deferred savings plan;

- a yellow proxy card for Series A Common Shares, including Series A Common Shares owned through the dividend reinvestment plan; and

- a tan proxy card for Preferred Shares.

How will proxies be voted?

All properly executed and unrevoked proxies received in the accompanying form in time for our 2006 annual meeting of shareholders will be voted in the manner directed on the proxies.

If no direction is made, a proxy by any shareholder will be voted FOR the election of the board of directors nominees to serve as directors and FOR the proposal to ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accountants for 2006.

Proxies given pursuant to this solicitation may be revoked at any time prior to the voting of the shares at the annual meeting by written notice to the Secretary of TDS, by submitting a later dated proxy or by attendance and voting in person at the annual meeting.

What constitutes a quorum for the meeting?

In the election of directors, where a separate vote by a class or classes is required with respect to a director, the holders of a majority of the votes of the stock of such class or classes issued and outstanding and entitled to vote with respect to such director, present in person or represented by proxy, will constitute a quorum with respect to such election. Withheld votes will be treated as present in person or represented by proxy in connection with such proposal and broker non-votes with respect to such proposal will not be treated as present in person or represented by proxy with respect to such proposal. If an authorized representative of the TDS Voting Trust is present in person or represented by proxy at the annual meeting, the TDS Voting Trust will by itself constitute a quorum at the annual meeting in connection with the election of directors by the holders of Series A Common Shares and Preferred Shares.

With respect to the proposal to ratify accountants, the holders of a majority of the votes of the stock issued and outstanding and entitled to vote with respect to such proposal, present in person or represented by proxy, will constitute a quorum at the annual meeting in connection with such proposal. Abstentions will

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be treated as present in person or represented by proxy in connection with such proposals and broker non-votes with respect to such proposal will not be treated as present in person or represented by proxy with respect to such proposal. If an authorized representative of the TDS Voting Trust is present in person or represented by proxy at the annual meeting, the TDS Voting Trust will by itself constitute a quorum at the annual meeting in connection with such proposal.

What vote is required to elect directors in Proposal 1?

The election of each director requires the affirmative vote of holders of a plurality of the votes of the shares present in person or represented by proxy and entitled to vote with respect to such director at the annual meeting.

Accordingly, if a quorum exists, each person receiving a plurality of the votes of the shareholders entitled to vote with respect to the election of such director will be elected to serve as a director. Withheld votes and non-votes with respect to the election of such directors will not affect the outcome of the election of such directors.

What vote is required with respect to Proposal 2?

The holders of Common Shares, Preferred Shares and Series A Common Shares will vote together as a single group with respect to Proposal 2. Each holder of outstanding Common Shares or Preferred Shares is entitled to one vote for each Common Share or Preferred Share held in such holder s name. Each holder of Series A Common Shares is entitled to ten votes for each Series A Common Share held in such holder s name.

If a quorum is present at the annual meeting, the approval of Proposal 2 will require the affirmative vote of a majority of the voting power of the Common Shares, Preferred Shares and Series A Common Shares voting together as a single group and present in person or represented by proxy and entitled to vote on such matter at the annual meeting. Abstentions from voting on such proposal will be treated as a vote against such proposal. Broker non-votes with respect to such proposal will not be counted as shares present and entitled to vote on such proposal and, accordingly, will not affect the determination of whether such proposal is approved.

PROPOSAL 1
ELECTION OF DIRECTORS

The terms of all incumbent directors will expire at the 2006 annual meeting. The board of directors nominees for election of directors are identified in the tables below. Each of the nominees has expressed an intention to serve if elected. In the event any such nominee fails to stand for election, the persons named in the proxy presently intend to vote for a substitute nominee if one is designated by the board of directors.

To be Elected by Holders of Common Shares and Special Common Shares

Name	*Age*	*Position with TDS and Principal Occupation*	*Served as Director since*
Christopher D. O Leary	47	Nominee for Director of TDS, Executive Vice President, Chief Operating Officer International, of General Mills	N/A
Mitchell H. Saranow	60	Director of TDS and Chairman of The Saranow Group	2004
Martin L. Solomon	69	Director of TDS and Private Investor	1997
Herbert S. Wander	71	Director of TDS and Partner, Katten Muchin Rosenman LLP, Chicago, Illinois	1968

Elected by Holders of Series A Common Shares and Preferred Shares

Name	*Age*	*Position with TDS and Principal Occupation*	*Served as Director since*
James Barr III	66	Director of TDS and President and Chief Executive Officer of TDS Telecommunications Corporation	1990
LeRoy T. Carlson	90	Director and Chairman Emeritus of TDS	1968
LeRoy T. Carlson, Jr.	59	Director and President and Chief Executive Officer of TDS	1968
Walter C.D. Carlson	52	Director and non-executive Chairman of the Board of TDS and Partner, Sidley Austin LLP, Chicago, Illinois	1981
Letitia G. Carlson, M.D.	45	Director of TDS, Physician and Associate Clinical Professor at George Washington University Medical Center	1996
Sandra L. Helton	56	Director and Executive Vice President and Chief Financial Officer of TDS	1998
Donald C. Nebergall	78	Director of TDS and Consultant	1977
George W. Off	59	Director of TDS and Chairman and Chief Executive Officer of Checkpoint Systems, Inc.	1997

Background of Board of Directors Nominees for Election by Holders of Common Shares and Special Common Shares

Christopher D. O Leary. ***Christopher D. O Leary was appointed executive vice president, chief operating officer international, of General Mills, as of June 1, 2006. Before that, he was a senior vice president of General Mills since 1999. In addition, he was the president of the General Mills Meals division***

between 2001 and 2006 and was president of the Betty Crocker division between 1999 and 2001. Mr. O Leary joined General Mills in 1997 after a 17-year career with PepsiCo, where his assignments included leadership roles for the Walkers-Smiths business in the United Kingdom and the Hostess Frito-Lay business in Canada. Mr. O Leary is being nominated for election to fill the vacancy that exists as a result of the resignation of Kevin A. Mundt. See below.

Mitchell H. Saranow. Mitchell H. Saranow has been the chairman of The Saranow Group, L.L.C., a private investment firm that he founded in 1984, for more than five years. Currently, Mr. Saranow is the chairman and principal investor in LENTEQ, L.P., an early stage equipment manufacturer. Previously, he served as chairman of the board and co-chief executive officer of Navigant Consulting, Inc. from November 1999 to May 2000. Prior to this, Mr. Saranow was chairman and managing general partner of Fluid Management, L.P., a specialty machinery manufacturer, for more than five years. Mr. Saranow is currently on the board of directors of Lawson Products, Inc. and completed his term on the board of directors of North American Scientific Inc. in 2005.

Martin L. Solomon. Martin L. Solomon has been a private investor since 1990. From June 1997 until February 2001, he was chairman of the board of American Country Holdings, Inc., an insurance holding company. He served as a director until April 2002, at which time the company was acquired by Kingsway Financial Services, Inc. Mr. Solomon is currently a director of Hexcel Corporation, a manufacturer of composite materials.

Mr. Solomon was nominated by the TDS Board on May 4, 2006 for election as a director at the 2006 annual meeting. Mr. Solomon has advised TDS that he will stand for election at the 2006 annual meeting, but due to personal reasons, plans to resign from the TDS Board after a search for a qualified successor is completed. TDS has commenced a search for a qualified candidate.

Herbert S. Wander. Herbert S. Wander has been a partner of Katten Muchin Rosenman LLP for more than five years. Katten Muchin Rosenman LLP does not provide legal services to TDS or its subsidiaries.

The board of directors recommends a vote FOR each of the above nominees for election by the holders of Common Shares and Special Common Shares.

Background of Board of Directors Nominees for Election by Holders of Series A Common Shares and Preferred Shares

James Barr, III. James Barr, III has been President and Chief Executive Officer and a director of TDS Telecommunications Corporation (TDS Telecom), a wholly-owned subsidiary of TDS which operates local telephone companies, for more than five years. On February 21, 2006, TDS announced that Mr. Barr will retire from his position as President and Chief Executive Officer of TDS Telecom. Mr. Barr will step down as President and CEO of TDS Telecom on January 1, 2007. He will remain on TDS Telecom s payroll until March 23, 2007 and retire on March 24, 2007. Mr. Barr will continue to serve as a director of TDS after his retirement for so long as he continues to be nominated and elected.

LeRoy T. Carlson. LeRoy T. Carlson was elected Chairman Emeritus of TDS in February 2002. Prior to that time, he was Chairman of TDS for more than five years. He is a Director of United States Cellular Corporation (American Stock Exchange listing symbol: USM), a subsidiary of TDS which operates and invests in wireless telephone companies and properties (U.S. Cellular). Mr. Carlson is the father of LeRoy T. Carlson, Jr., Walter C.D. Carlson and Letitia G. Carlson, M.D.

LeRoy T. Carlson, Jr. LeRoy T. Carlson, Jr., has been TDS s President and Chief Executive Officer for more than five years. Mr. LeRoy T. Carlson, Jr. is also Chairman and a Director of U.S. Cellular and TDS Telecom. He is the son of Mr. LeRoy T. Carlson and the brother of Mr. Walter C.D. Carlson and Letitia G. Carlson, M.D.

Walter C.D. Carlson. Walter C.D. Carlson was elected non-executive Chairman of the Board of the board of directors of TDS in February 2002. He has been a partner of Sidley Austin LLP for more than five years and is a member of its executive committee. He is a director of U.S. Cellular. Walter C.D. Carlson is the son of LeRoy T. Carlson and the brother of LeRoy T. Carlson, Jr. and Letitia G. Carlson, M.D. The law

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firm of Sidley Austin LLP provides legal services to TDS and its subsidiaries on a regular basis. Mr. Carlson does not provide legal services to TDS, U.S. Cellular or their subsidiaries.

Letitia G. Carlson, M.D.. Letitia G. Carlson, M.D. has been a physician at George Washington University Medical Center for more than five years. At such medical center, she was an assistant professor between 1992 and 2001 and an assistant clinical professor between 2001 and 2003, and has been an associate clinical professor since 2003. Dr. Carlson is the daughter of LeRoy T. Carlson and the sister of LeRoy T. Carlson, Jr. and Walter C.D. Carlson.

Sandra L. Helton. Sandra L. Helton has been Executive Vice President and Chief Financial Officer for more than five years. Ms. Helton is also a director of U.S. Cellular and TDS Telecom. Ms. Helton is a director of The Principal Financial Group, a global financial institution, and Covance, Inc., a drug development services company.

Donald C. Nebergall. Donald C. Nebergall has been a consultant to companies since 1988, including TDS from 1988 through 2002. Mr. Nebergall was vice president of The Chapman Company, a registered investment advisory company located in Cedar Rapids, Iowa, from 1986 to 1988. Prior to that, he was the chairman of Brenton Bank & Trust Company, Cedar Rapids, Iowa, from 1982 to 1986, and was its president from 1972 to 1982.

George W. Off. George W. Off was appointed chairman and chief executive officer of Checkpoint Systems, Inc., a New York Stock Exchange listed company in August 2002. Checkpoint Systems, Inc. is a multinational manufacturer and marketer of integrated system solutions for retail security, labeling and merchandising. Prior to that time, Mr. Off was chairman of the board of directors of Catalina Marketing Corporation, a New York Stock Exchange listed company, from July 1998 until he retired in July 2000. Mr. Off served as president and chief executive officer of Catalina from 1994 to 1998. Until November 2003, Mr. Off also served as a director of SPAR Group, Inc., a provider of merchandising services for retailers and consumer package goods manufacturers.

The board of directors recommends a vote FOR each of the above nominees for election by the holders of Series A Common Shares and Preferred Shares.

The following additional information is provided in connection with the election of directors.

Former Director

Due to other business commitments, Kevin A. Mundt resigned from TDS Board on December 31, 2005. Mr. Mundt was elected director by the holders of Common Shares at the 2005 annual meeting.

Kevin A. Mundt is a general partner and managing director of Vestar Capital Partners, a private equity firm. From 1997 to 2004, he was vice president and director of Mercer Oliver Wyman, f/k/a Mercer Management Consulting, a management consulting firm. Prior to that time, he was a co-founder, and had been a director since 1984, of Corporate Decisions, Inc., a strategy consulting firm, which merged with Mercer Management Consulting in 1997.

Meetings of Board of Directors

The board of directors held nine meetings during 2005. Each incumbent director attended at least 75 percent of the aggregate of the total number of meetings of the board of directors (held during 2005 for which such person has been a director) and the total number of meetings held by all committees of the board on which such person served (during the periods that such person served).

Compensation Committee

On February 21, 2006, the functions of the former compensation committee and long-term compensation committee were reconstituted in a new Compensation Committee. The primary functions of the Compensation Committee are: to discharge the Board s responsibilities relating to the compensation of

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the executive officers of Telephone and Data Systems, Inc., (which term does not include United States Cellular Corporation or any of its subsidiaries), including the review of salary, bonus, long-term compensation and all other compensation for executive officers of the Company; to perform all functions designated to be performed by a committee of the Board under any of the Company s Long-Term Incentive Plans; to review and recommend to the Board the Long-Term Incentive Plans and programs for employees of the Company, including TDS Telecom; and to report on executive compensation in the Company s annual proxy statement or otherwise to the extent required under any applicable rules and regulations. The members of the Compensation Committee are Herbert S. Wander (chairperson) and George W. Off. A copy of the charter of the Compensation Committee is available on TDS s web site, www.teldta.com, under Investor Relations Corporate Governance Board Committee Charters.

Former Compensation Committee and Long-Term Compensation Committee

On February 21, 2006, the former compensation committee and long-term compensation committee were rescinded and reconstituted into the new Compensation Committee discussed above.

The primary function of the compensation committee was to develop and administer the near term compensation policies and programs for TDS officers and key subsidiary executives, other than the President and CEO of TDS, and to administer long-term compensation for non-executive officers of TDS. The sole member of the compensation committee was LeRoy T. Carlson, Jr., President and CEO of TDS. All actions of the compensation committee were taken by written consent.

The primary function of the long-term compensation committee was to approve all compensation for the President and CEO, consider and approve long-term compensation for TDS executive officers and for the president of TDS Telecom, and review and recommend to the board of directors any long-term compensation programs for TDS employees. The members of the long-term compensation committee were Herbert S. Wander (chairperson), Letitia G. Carlson, M.D. and George W. Off. All meetings of the long-term compensation committee in 2005 were attended by each member of the committee during the period that such person served. Certain actions were taken by unanimous written consent.

Audit Committee

The primary function of the Audit Committee is to assist the board of directors in fulfilling its oversight responsibilities with respect to the quality, integrity and annual independent audit of TDS s financial statements and other matters set forth in the charter for the Audit Committee, a copy of which is attached hereto as Exhibit A. A copy of the charter is also available on TDS s web site, www.teldta.com under Investor Relations Corporate Governance Board Committee Charters.

The Audit Committee is currently composed of four members who are not officers or employees of TDS or any parent or subsidiary of TDS and have been determined by the board of directors not to have any other material relationship with TDS that would interfere with their exercise of independent judgment. The board of directors has also determined that such directors qualify as independent under Rule 10A-3 of the Securities Exchange Act of 1934, as amended. Except as required by listing standards or SEC rule, TDS does not have any categorical standards of independence that must be satisfied. The current members of the Audit Committee are George W. Off (chairperson), Donald C. Nebergall, Mitchell H. Saranow and Herbert S. Wander. The board of directors has determined that each of the members of the Audit Committee is independent and financially sophisticated as such terms are defined by the American Stock Exchange.

The board has made a determination that Mr. Saranow is an audit committee financial expert as such term is defined by the SEC.

In accordance with the SEC s safe harbor rule for audit committee financial experts, no member designated as an audit committee financial expert shall (i) be deemed an expert for any other purpose or (ii) have any duty, obligation or liability that is greater than the duties, obligations and liability imposed on a member of the board or the audit committee not so designated. Additionally, the designation of a member or members as an audit committee financial expert shall in no way affect the duties, obligations or liability of any member of the audit committee, or the board, not so designated.

The Audit Committee held thirteen meetings during 2005.

Corporate Governance Committee

The members of the Corporate Governance Committee are Walter C.D. Carlson (chairperson), LeRoy T. Carlson, Jr. and Martin L. Solomon. The primary function of the Corporate Governance Committee is to advise the board on corporate governance matters, including developing and recommending to the board a set of corporate governance guidelines for TDS. A copy of the charter and the corporate governance guidelines are available on TDS s web site, www.teldta.com, under Investor Relations Corporate Governance under Board Committee Charters for the charter and under Corporate Governance Guidelines for the guidelines.

American Stock Exchange Listing Standards

Because the TDS Common Shares and Special Common Shares are listed on the American Stock Exchange, TDS must comply with listing standards applicable to companies which have equity securities listed on the American Stock Exchange. TDS certifies compliance with such standards to the American Stock Exchange on an annual basis within 30 days after the date of the annual meeting. TDS certified that it was in compliance with all American Stock Exchange listing standards within 30 days of the 2005 annual meeting. Following that time, TDS disclosed that it was not in compliance with certain listing standards. Although TDS previously was not in compliance with listing standards due to its failure to distribute an annual report to shareholders for the year ended December 31, 2005 by April 30, 2006, TDS obtained an extension to complete this by November 14, 2006 and has satisfied such listing standard by including the financial information attached hereto as Appendix I. TDS also previously disclosed that it was not in compliance with certain listing standards due to its failure to file with the SEC on a timely basis its quarterly report on Form 10-Q for the quarter ended September 30, 2005, its Form 10-K for the year ended December 31, 2005 and its Form 10-Q for the quarter ending March 31, 2006. In addition, TDS does not expect to file its Form 10-Q for the quarter ended June 30, 2006 on a timely basis or by the date of the 2006 annual meeting. The American Stock Exchange granted TDS an extension until November 14, 2006 to regain compliance with such listing standards and TDS has since filed its quarterly report on Form 10-Q for the quarter ended September 30, 2005 and its Form 10-K for the year ended December 31, 2005. TDS will regain compliance with these listing standards when it has filed with the SEC its Forms 10-Q for the quarter ending March 31, 2006 and June 30, 2006 on or prior to November 14, 2006. TDS does not expect to be current in its SEC filings by the date of its 2006 annual meeting. Accordingly, TDS does not expect to be in compliance with all American Stock Exchange listing standards as of the date of its 2006 annual meeting.

Under listing standards of the American Stock Exchange, TDS is a controlled company as such term is defined by the American Stock Exchange. TDS is a controlled company because over 50% of the voting power of TDS is held by the trustees of the TDS Voting Trust. Accordingly, it is exempt from certain listing standards that require listed companies that are not controlled companies to (i) have a board composed of a majority of directors that qualify as independent under the rules of the American Stock Exchange, (ii) have certain compensation approved by a compensation committee comprised solely of directors, or by a majority of directors, that qualify as independent under the rules of the American Stock Exchange, and (iii) have director nominations be made by a committee comprised solely of directors, or by a majority of directors, that qualify as independent under the rules of the American Stock Exchange.

Although not required to do so, TDS has established a Compensation Committee comprised solely of directors that qualify as independent under the rules of the American Stock Exchange.

As a controlled company, TDS is required to have three directors who qualify as independent to serve on the Audit Committee. The TDS Audit Committee has four members: George W. Off, Donald C. Nebergall, Herbert S. Wander and Mitchell H. Saranow. The TDS board of directors has determined that all four members of the TDS Audit Committee do not have any material relationship that would interfere with the exercise of independent judgment and qualify as independent under the listing standards of the American Stock Exchange, as well as the rules of the SEC. In addition, two of the other current directors and nominees for election as director do not have any material relationship with TDS other than in their capacities as directors of TDS and, accordingly, would qualify as independent directors under the listing standards of the American Stock Exchange. As a result, six of the twelve directors, or 50% of the directors, have been determined to qualify or would qualify as independent under the listing standards of the American Stock Exchange.

Director Nomination Process

TDS does not have a nominating committee and, accordingly, does not have a nominating committee charter. Under listing standards of the American Stock Exchange, TDS is exempt from the requirement to have a nominating committee because it is a controlled company as such term is defined by the American Stock Exchange. Instead, the entire board of directors participates in the consideration of director nominees. Similarly, since TDS is a controlled company, TDS also is exempt from the listing standard that requires director nominations to be made by a nominating committee comprised solely of independent directors or by a majority of independent directors.

The TDS board of directors does not have a formal policy with regard to the consideration of any director candidates recommended by shareholders. However, since the TDS Voting Trust has over 90% of the voting power in the election of directors elected by holders of Series A Common Shares and Preferred Shares, nominations of directors for election by the holders of Series A Common Shares and Preferred Shares is based on the recommendation of the trustees of the TDS Voting Trust. With respect to candidates for director to be elected by the Common Shares and Special Common Shares, the TDS board may from time to time informally consider candidates submitted by shareholders that hold a significant number of Common Shares and Special Common Shares. The TDS board has no formal procedures to be followed by shareholders in submitting recommendations of candidates for director.

The TDS board of directors does not have any specific, minimum qualifications that the board believes must be met by a nominee for a position on the TDS board of directors, or any specific qualities or skills that the board believes are necessary for one or more of the TDS directors to possess. The TDS board has consistently sought to nominate to the board of directors eminently qualified individuals whom the board believes would provide substantial benefit and guidance to TDS. The TDS board believes that substantial judgment, diligence and care are required to identify and select qualified persons as directors and does not believe that it would be appropriate to place limitations on its own discretion.

In general, the TDS board will nominate existing directors for re-election unless the board has a concern about the director s ability to perform his or her duties. In the event of a vacancy on the board of a director elected by the Series A Common Shares and Preferred Shares, nominations are based on the recommendation of the trustees of the TDS Voting Trust. In the event of a vacancy on the board of a director elected by the Common Shares and Special Common Shares, TDS may use various sources to identify potential candidates, including an executive search firm. In addition, the President may consider recommendations by shareholders that hold a significant number of Common Shares or Special Common Shares. Potential candidates are initially screened by the President and by other persons as the President designates. Following this process, the President discusses with the Chairman of the Board whether one or more candidates should be considered by the full board of directors. If appropriate, information about the candidate is presented to and discussed by the full board of directors.

Each of the nominees approved by the TDS board for inclusion on TDS s proxy card for election at the 2006 annual meeting are executive officers and/or directors who are standing for re-election, except for Mr. O Leary. Mr. O Leary was nominated for election by the board of directors upon the recommendation of TDS s President and CEO. TDS was obligated to pay a fee to an executive search firm for performing a search for candidates and identifying Mr. O Leary as a candidate for the TDS board of directors.

TDS was also obligated to pay a fee to an executive search firm for performing a search for candidates to fill the directorship currently held by Martin L. Solomon, as discussed above.

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Except as disclosed above, TDS has not paid a fee to any third party or parties to identify or evaluate or assist in identifying or evaluating potential nominees for election of directors at the 2006 annual meeting. However, from time to time, TDS may pay a fee to an executive search firm to identify potential candidates for election as directors.

Shareholder Communication with Directors

Security holders may send communications to the board of directors of TDS at any time. Any security holders can send communications to the board or to specified individual directors. Security holders should direct their communication to the board or to specified individual directors, in care of the Secretary of TDS at its corporate headquarters. Any security holder communications that are addressed to the board of directors or specified individual directors will be delivered by the Secretary of TDS to the board of directors or such specified individual directors. For more information, see the instructions on TDS s web site, www.teldta.com, under Investor Relations Corporate Governance Contacting the TDS Board of Directors.

TDS Policy on Attendance of Directors at Annual Meeting of Shareholders

All directors are invited and encouraged to attend the annual meeting of shareholders, which is normally followed by the annual meeting of the board of directors. In general, all directors attend the annual meeting of shareholders unless they are unable to do so due to unavoidable commitments or intervening events. All twelve persons serving as directors at the time attended the 2005 annual meeting of shareholders.

Stock Ownership Guidelines

Under stock ownership guidelines for directors, each director is expected to own a minimum of 2,000 shares of common stock of TDS. In the event the value of the ownership interest of 2,000 shares falls below $50,000, the board may increase the minimum investment level to ensure an investment equivalent to at least $50,000. Directors have three years to comply with this requirement. The board will review the minimum ownership requirement periodically.

PROPOSAL 2
INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

We anticipate continuing the services of PricewaterhouseCoopers LLP as independent registered public accountants for the current fiscal year. Representatives of PricewaterhouseCoopers LLP, who served as independent registered public accountants for the last fiscal year, are expected to be present at the annual meeting of shareholders and will have the opportunity to make a statement and to respond to appropriate questions raised by shareholders at the annual meeting or submitted in writing prior thereto.

We are not required to obtain shareholder ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accountants by the Bylaws or otherwise. However, we have elected to seek such ratification by the affirmative vote of the holders of a majority of the votes cast by shares entitled to vote with respect to such matter at the annual meeting. Should the shareholders fail to ratify the selection of PricewaterhouseCoopers LLP as independent registered public accountants, the Audit Committee of the board of directors will review whether to retain such firm for the year ending December 31, 2006.

The board of directors recommends a vote FOR ratification of PricewaterhouseCoopers LLP as independent registered public accountants for the current fiscal year.

FEES PAID TO PRINCIPAL ACCOUNTANTS

The following sets forth the aggregate fees (including expenses) billed by TDS s principal accountants PricewaterhouseCoopers LLP for 2005 and 2004:

	2005		*2004*	
Audit Fees(1)	$	6,012,493	$5,649,085	
Audit Related Fees				
Tax Fees				
All Other Fees(2)	4,500		15,000	
Total Fees	$	6,016,993	$	5,664,085

(1) Represents the aggregate fees billed by PricewaterhouseCoopers LLP for professional services rendered for the audit of the annual financial statements for the years 2005 and 2004 included in TDS s and U.S. Cellular s Form 10-Ks for those years and the reviews of the financial statements included in TDS s and U.S. Cellular s Form 10-Qs for each of these years including the attestation and report relating to internal control over financial reporting as well as accounting research, audit fees related to the restatement of the Company s financial statements for the five years in the period ended December 31, 2004, review of financial information included in other SEC filings and the issuance of consents and comfort letters. Although PricewaterhouseCoopers LLP has billed TDS and U.S. Cellular for these fees and expenses, management of TDS and U.S. Cellular have not yet completed their reviews of all of the amounts billed. Includes an estimate for incremental audit fees to be billed upon completion of the 2005 audit.

(2) Represents the aggregate fees billed by PricewaterhouseCoopers LLP for services, other than services covered in (1) above, for the years 2005 and 2004.

The Audit Committee determined that the payment of fees for non-audit related services does not conflict with maintaining PricewaterhouseCoopers LLP s independence.

Pre-approval Procedures

The Audit Committee adopted a policy, effective May 6, 2003, as amended as of February 26, 2004, pursuant to which all audit and non-audit services must be pre-approved by the Audit Committee. The following describes the policy as amended. Under no circumstances may TDS s principal external accountant provide services that are prohibited by the Sarbanes-Oxley Act of 2002 or rules issued thereunder. Non-prohibited audit-related services and certain tax and other services may be provided to

TDS, subject to such pre-approval process and prohibitions. The Audit Committee has delegated to the chairperson plus any other member of the Audit Committee the authority to pre-approve services by the independent registered public accountants and to report any such approvals to the full Audit Committee at each of its regularly scheduled meetings. In the event the chairperson is unavailable, pre-approval may be given by any two members of the Audit Committee. The pre-approval policy relates to all services provided by TDS s principal external auditor and does not include any *de minimis* exception.

AUDIT COMMITTEE REPORT

This report is submitted by the current members of the Audit Committee of the board of directors of TDS. The Audit Committee operates under a written charter adopted by the TDS board of directors, a copy of which is attached hereto as *Exhibit A*.

Management is responsible for TDS s internal controls and the financial reporting process. TDS has an internal audit staff, which performs testing of internal controls and the financial reporting process. The independent registered public accountants are responsible for performing an independent audit of TDS s consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and issuing a report thereon. The Audit Committee s responsibility is to monitor and oversee these processes.

In this context, the Audit Committee held meetings with management, the internal audit staff and representatives of PricewaterhouseCoopers LLP, TDS s independent registered public accountants for 2005. In these meetings, the Audit Committee reviewed and discussed the audited financial statements as of and for the year ended December 31, 2005. Management represented to the Audit Committee that TDS s consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and representatives of PricewaterhouseCoopers LLP.

The discussions with PricewaterhouseCoopers LLP also included the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended, relating to information regarding the scope and results of the audit. The Audit Committee also received from PricewaterhouseCoopers LLP written disclosures and a letter regarding its independence as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, as amended, and this information was discussed with PricewaterhouseCoopers LLP.

Based on, and in reliance upon these reviews and discussions, the Audit Committee recommended to the board of directors that the audited financial statements as of and for the year ended December 31, 2005 be included in TDS s Annual Report on Form 10-K for the year ended December 31, 2005.

By the members of the Audit Committee of the board of directors of TDS:

George W. Off Chairperson	Donald C. Nebergall	Mitchell H. Saranow	Herbert S. Wander

EXECUTIVE OFFICERS

In addition to the executive officers identified in the tables regarding the election of directors, set forth below is a table identifying current officers of TDS and its subsidiaries who may be deemed to be executive officers of TDS. Unless otherwise indicated, the position held is an office of TDS.

Name	*Age*	*Position*
John E. Rooney	64	President and CEO of United States Cellular Corporation
D. Michael Jack	63	Senior Vice President and Corporate Controller
Kurt B. Thaus	47	Senior Vice President and Chief Information Officer
Scott H. Williamson	55	Senior Vice President Acquisitions and Corporate Development
C. Theodore Herbert	70	Vice President Human Resources
Joseph R. Hanley	39	Vice President Technology Planning and Services

John E. Rooney. John E. Rooney has been the President and Chief Executive Officer of U.S. Cellular for more than five years.

D. Michael Jack. D. Michael Jack was appointed Senior Vice President and Corporate Controller of TDS in March 2003. Prior to that, he was Vice President and Corporate Controller since November 1999.

Kurt B. Thaus. Kurt B. Thaus was appointed Senior Vice President and Chief Information Officer on January 12, 2004. Prior to that, he was employed by T-Systems North America, Inc., the North American subsidiary of T-Systems International (Deutsche Telekom) for more than five years, most recently as senior vice president of technology management services.

Scott H. Williamson. Scott H. Williamson has been Senior Vice President Acquisitions and Corporate Development of TDS for more than five years.

C. Theodore Herbert. C. Theodore Herbert has been Vice President Human Resources of TDS for more than five years.

Joseph R. Hanley. Joseph R. Hanley was appointed Vice President Technology Planning and Services on August 15, 2004. Prior to that, he was employed by TDS Telecom for more than five years, most recently as Vice President Strategic Planning and Emerging Applications.

All of our executive officers devote all their employment time to the affairs of TDS and its subsidiaries.

Codes of Conduct and Ethics

As required by Section 807 of the American Stock Exchange Company Guide, TDS has adopted a Code of Business Conduct, applicable to all officers and employees of TDS and its subsidiaries, which includes a Code of Ethics for certain Senior Executives and Financial Officers, that complies with the definition of a code of ethics as set forth in Item 406 of Regulation S-K of the SEC. TDS has also adopted a Code of Ethics for its directors. Each of the foregoing codes has been posted to TDS s internet website, www.teldta.com, under Investor Relations Corporate Governance.

TDS intends to satisfy the disclosure requirement under Item 10 of Form 8-K regarding any amendment to its Code of Ethics for certain Senior Executives and Financial Officers, and will disclose all other amendments to any of the foregoing codes, by posting such information to such internet website. Any waivers of any of the foregoing codes for directors or executive officers, including any waiver of the Code of Ethics for certain Senior Executives and Financial Officers, will be approved by TDS s board of directors, as applicable, and disclosed in a Form 8-K that is filed with the SEC within four business days of such waiver.

EXECUTIVE COMPENSATION

Summary of Compensation

The following table summarizes the compensation paid by TDS to the President and Chief Executive Officer of TDS and the other four most highly compensated executive officers (based on the aggregate of the salary and bonus for 2005).

Summary Compensation Table(1)

					Long-Term Compensation			
		Annual Compensation			*Awards*		*Payouts*	
					Restricted	*Securities*		
				Other Annual	*Stock*	*Underlying*	*LTIP*	*All Other*
Name and Principal Position	*Year*	*Salary(2)*	*Bonus(3)*	*Compensation(4)*	*Award(s)(5)*	*Options(6)*	*Payouts(7)*	*Compensation(8)*
LeRoy T. Carlson, Jr.	2005	$ 1,050,000	$	$	$ 1,458,380	111,045	$	$ 50,085
President and Chief	2004	970,000	875,000			67,540		49,190
Executive Officer	2003	910,000	591,500			65,567		47,581
Sandra L. Helton	2005	$ 640,000	$	$	$ 700,519	53,353	$	$ 50,251
Executive Vice	2004	593,000	400,000			30,585		49,021
President and Chief	2003	550,000	370,000			31,475		47,139
Financial Officer								
James Barr III	2005	$ 613,000	$ 320,000	$	$ 611,823	47,493	$	$ 58,140
President and Chief	2004	573,000	290,000			13,905		52,522
Executive Officer of	2003	539,000	285,000			11,958		50,966
TDS Telecom								
John E. Rooney(9)	2005	$ 690,000	$ 300,000	$145,477	$ 523,559	131,000	$	$ 53,124
President and Chief	2004	633,335	590,000	172,103	337,260	92,000		51,944
Executive Officer of	2003	592,209	360,000	105,012	366,585	175,000		50,553
U.S. Cellular								
Scott H. Williamson	2005	$ 460,000	$ 285,000	$	$ 320,975	24,493	$	$ 50,057
Senior Vice	2004	427,000	265,000			14,965		48,481
President-Acquisitions and	2003	396,000	245,000			15,785		36,691
Corporate Development								

There are no outstanding stock appreciation rights (SARs), therefore the Summary Compensation Table does not reflect information on SARs.

(1) Does not include the discount amount under any dividend reinvestment plan or any employee stock purchase plan because such plans are generally available to all eligible shareholders or salaried employees, respectively.

(2) Represents the dollar value of base salary (cash and non-cash) earned by the named executive officer during the fiscal year identified.

(3) Represents the dollar value of bonus (cash and non-cash) earned (whether received in cash or deferred) by the named executive officer for 2005, 2004 and 2003. The final bonus for 2005 has not yet been determined for LeRoy T. Carlson, Jr. or Sandra L. Helton. See Executive Officer Compensation Report.

(4) Includes the fair market value of phantom stock units credited to such officer with respect to deferred bonus compensation. See Bonus Deferral and Stock Unit Match Program. LeRoy T. Carlson, Jr., has deferred 20% of his 2005 bonus and, accordingly, will receive a 25% stock unit match for this deferred bonus under the TDS Long-Term Incentive Plan. The bonus for 2005 has not yet been determined for LeRoy T. Carlson, Jr. or Sandra L. Helton, and therefore, the dollar value of the company match

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phantom stock units cannot be determine at this time. Mr. Rooney deferred 100% of his 2005, 2004 and 2003 bonus under the U.S. Cellular long-term incentive plan.

Does not include the value of any perquisites and other personal benefits, securities or property unless the aggregate amount of such compensation is more than the lesser of either $50,000 or 10% of the total of annual salary and bonus reported for the above-named executive officers. The amount of perquisites for Mr. Rooney exceeded the lesser of $50,000 or 10% of the total of his annual salary and bonus for 2005. The amount of perquisites included for Mr. Rooney in 2005 was $57,967, primarily including a car allowance of $42,000.

(5) Except with respect to Mr. Rooney, represents the value of restricted stock units awarded pursuant to the 2004 Long-Term Incentive Plan. TDS restricted stock units will become vested on December 15, 2007, except with respect to Mr. Barr whose restricted stock units will become vested upon his retirement on March 24, 2007. Mr. Rooney s U.S. Cellular restricted stock units will vest on October 10, 2006. As a result of the Special Common Stock dividend, all restricted stock units as of May 13, 2005 that were to be settled in Common Shares, whether vested or unvested, were adjusted to provide that such award will be settled in the number of Common Shares originally subject to the award plus an equal number of Special Common Shares. With respect to Mr. Rooney, represents the value of restricted USM Common Shares granted to Mr. Rooney, based on the closing price of USM Common Shares on the date of grant.

The following table summarizes the restricted stock awards:

	LeRoy T. Carlson, Jr.		*Sandra L. Helton*		*James Barr III*		*John E. Rooney*		*Scott H. Williamson*	
Granted in 2003:										
2003 Performance Award Vested 3/31/06							14,981			
Total Grant Date Dollar Value for 2003:	$		$		$		$	366,585	$	
Granted in 2004:										
2004 Performance Award Vests 10/10/06							8,726			
Total Grant Date Dollar Value for 2004:	$		$		$		$	337,260	$	
Granted in 2005										
2005 Performance Award Vests 12/15/07	19,024		9,138		7,981				4,187	
Vests 10/10/06							11,474			
Total Grant Date Dollar Value for 2005	$	1,458,380	$	700,519	$	611,823	$	523,559	$	320,975
Summary of Restricted Stock Outstanding at 12/31/05:										
Unvested shares of restricted stock as of 12/31/05	19,024		9,138		7,981		35,181		4,187	
Dollar Value as of 12/31/05	$	1,343,855	$	645,508	$	563,778	$	1,737,941	$	295,770

Mr. Barr plans to retire on March 24, 2007. Mr. Barr s restricted stock awards will vest upon his retirement in accordance with such award agreements.

Except with respect to John E. Rooney, the Grant Date Dollar Value of the above awards is calculated using the closing price of TDS shares on the award date. The Dollar Value as of December 31, 2005 is calculated using the closing price on December 30, 2005, the last business day in 2005, of TDS Common Shares of $36.03 and Special Common Shares of $34.61. With respect to Mr. Rooney, the Grant Date Dollar Value is calculated using the closing price of USM Common Shares on December 30, 2005, the last business day in 2005, of $49.40.

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(6) Except with respect to Mr. Rooney, represents the number of tandem TDS Common Shares and Special Common Shares subject to stock options awarded during the fiscal year identified. As a result of the Special Common Share stock dividend, all options to purchase Common Shares as of May 13, 2005 under the TDS Long Term Incentive Plan, whether vested or unvested, were adjusted into tandem options. The tandem options provide that upon exercise, the optionee will acquire the number of Common Shares originally subject to the option plus an equal number of Special Common Shares at the original exercise price. In the case of John E. Rooney, the awards represent options with respect to USM Common Shares.

(7) There were no long-term incentive plan payouts during the reported periods.

(8) Includes contributions by TDS for the benefit of the named executive officer under the TDS tax-deferred savings plan (TDSP), the TDS pension plan (Pension Plan), including earnings accrued under a related supplemental benefit agreement, the TDS supplemental executive retirement plan (SERP) and the dollar value of any insurance premiums paid during the covered fiscal year with respect to life insurance for the benefit of the named executive (Life Insurance), as indicated below for 2005:

	LeRoy T. Carlson, Jr.	*Sandra L. Helton*	*James Barr III*	*John E. Rooney*	*Scott H. Williamson*
TDSP	$ 7,275	$ 7,560	$ 7,560	$ 7,560	$ 7,560
Pension Plan	22,240	20,284	25,200	9,900	16,504
SERP	19,760	21,716	16,800	32,100	25,496
Life Insurance	810	691	8,580	3,564	497
Total	$ 50,085	$ 50,251	$ 58,140	$ 53,124	$ 50,057

(9) All of Mr. Rooney s compensation is paid by U.S. Cellular. Mr. Rooney s annual compensation is approved by LeRoy T. Carlson, Jr., the Chairman of U.S. Cellular, and Mr. Rooney s long-term compensation is approved by the stock option compensation committee of U.S. Cellular.

General Information Regarding Options

The following tables show, as to the executive officers who are named in the Summary Compensation Table, certain information regarding options.

Individual Option Grants in 2005

Name	*Number of Securities Underlying Options Granted(1)*	*Percent of Total Options Granted to Employees(2)*	*Exercise Price*	*Market Price(3)*	*Expiration Date*	*Potential Realizable Value at Assumed Annual Realized Stock Price Appreciation for Option Terms(4)* 5%	10%
LeRoy T. Carlson, Jr.(5)	111,045	15.4 %	$ 77.36	$ 77.36	04/20/2015	$ 5,402,482	$ 13,690,951
Sandra L. Helton(5)	53,353	7.4 %	$ 77.36	$ 77.36	04/20/2015	$ 2,595,692	$ 6,577,994
James Barr III(5)	47,493	6.6 %	$ 77.36	$ 77.36	04/20/2015	$ 2,310,596	$ 5,855,503
John E. Rooney(6)	131,000	17.2 %	$ 45.63	$ 45.63	03/31/2015	$ 3,759,237	$ 9,526,643
Scott H. Williamson(5)	24,493	3.4 %	$ 77.36	$ 77.36	04/20/2015	$ 1,191,616	$ 3,019,789

(1) Except with respect to John E. Rooney, represents the number of TDS shares underlying options awarded during the year. The TDS options were originally granted on April 20, 2005 with respect to the TDS Common Shares at an exercise price of $77.36 per share, which was the market price of a TDS Common Share on April 20, 2005. As a result of the special common stock dividend, all options to purchase common shares as of May 13, 2005 under the long term incentive plan, whether vested or unvested, were adjusted into tandem options. The tandem option provides that upon exercise, the optionee purchases the number of Common Shares originally subject to the option plus an

equal number of Special Common Shares at the original exercise price of $77.36 per tandem share. As a result, the column Number of Securities Underlying Options Granted represents an equal number of

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TDS Common Shares and TDS Special Common Shares. In the case of Mr. Rooney, the amount represents the number of U.S. Cellular shares underlying options awarded during the fiscal year.

(2) Except with respect to John E. Rooney, represents the percent of total TDS shares underlying options awarded to all TDS employees during the fiscal year. In the case of Mr. Rooney, the figure represents the percent of total U.S. Cellular shares underlying options awarded to all U.S. Cellular employees during the fiscal year.

(3) Represents the per share fair market value of shares as of the award date.

(4) Represents the potential realizable value of each grant of options, assuming that the market price of the shares underlying the options appreciates in value from the award date to the end of the option term at the indicated annualized rates.

(5) Pursuant to the TDS long-term incentive plan, on April 20,2005, such named executive officer was granted options (the 2004 Performance Options) to purchase TDS Common Shares based on the achievement of certain levels of corporate and individual performance in 2004 as contemplated by the TDS long-term incentive plan. The purchase price per TDS Common Share subject to the 2004 Performance Options is the fair market value of the TDS Common Shares as of the grant date. The 2004 Performance Options became exercisable on December 15, 2005. As a result of the special common stock dividend, all options to purchase Common Shares as of May 13, 2005 under the long term incentive plan, whether vested or unvested, were adjusted into tandem options. The tandem options provide that upon exercise, the optionee purchases the number of Common Shares originally subject to the option plus an equal number of Special Common Shares at the original exercise price. Upon his retirement on March 24, 2007, Mr. Barr s options will become fully vested.

(6) These represent options with respect to U.S. Cellular Common Shares. Such options were granted as of March 31, 2005 and become exercisable with respect to 25% of the shares underlying the option on March 31, 2006 and become fully vested on October 10, 2006.

Option Exercises in 2005 and
December 31, 2005 Option Values

	2005		*As of December 31, 2005*			
	Shares Acquired on Exercise(1)	*Value Realized(2)*	*Number of Securities Underlying Unexercised Options(3)*		*Value of Unexercised In-the-Money Options(4)*	
			Exercisable	*Unexercisable*	*Exercisable*	*Unexercisable*
LeRoy T. Carlson, Jr.						
2004 Performance Options(5)		$	111,045		$	$
2003 Performance Options(6)			67,540		313,386	
2002 Performance Options(7)			65,567		1,161,847	
2001 Performance Options(8)			68,215		717,622	
2000 Performance Options(9)			29,429			
2000 Automatic Options(10)			56,720			
1999 Performance Options(11)			32,000			
1998 Performance Options(12)			27,850		108,337	
1998 Automatic Options(13)			54,600		1,468,194	
1997 Performance Options(14)			27,300		843,297	
1996 Performance Options(15)			11,770		314,965	
1995 Performance Options(16)			13,233		304,888	
1994 Performance Options(17)	3,614	122,550				
Total	3,614	$ 122,550	565,269		$ 5,232,536	$
Sandra L. Helton						
2004 Performance Options(5)		$	53,353		$	$
2003 Performance Options(6)			30,585		141,914	
2002 Performance Options(7)			31,475		557,737	
2001 Performance Options(8)			29,915		348,211	
2000 Performance Options(9)			12,115			
2000 Automatic Options(10)			25,320			
1999 Performance Options(11)			18,000			
1998 Automatic Options(18)	12,000	575,160	24,000		882,480	
Total	12,000	$ 575,160	224,763		$ 1,930,342	$
James Barr III						
2004 Performance Options(5)		$	47,493		$	$
2003 Performance Options(6)			13,905		64,519	
2000 Performance Options(9)			6,785			
2000 Options(19)			30,400			
Total		$	98,583		$ 64,519	$
John E. Rooney						
2005 USM Options(20)		$		131,000	$	$ 493,870
2004 USM Options(21)			23,000	69,000	247,250	741,750
2003 USM Options(22)	69,750	1,755,198	17,750	87,500	442,507	2,181,375
2002 USM Options(23)	16,500	132,660	8,250	8,250	69,300	69,300
2001 USM Options(24)			16,000	4,000		
2000 USM Initial Options(25)			55,000			
Total	86,250	$ 1,887,858	120,000	299,750	$ 759,057	$ 3,486,295
Scott H. Williamson						
2004 Performance Options(5)		$	24,493		$	$
2003 Performance Options(6)			14,965		69,438	
2002 Performance Options(7)	15,785	522,957				
2001 Performance Options(8)			14,670		170,759	
2000 Performance Options(9)			7,690			
2000 Automatic Options(10)			14,760			
1999 Performance Options(11)			8,600			
			6,370		24,779	

1998 Performance Options(12)								
1998 Automatic Options(13)	12,900		545,670					
1997 Performance Options(14)	36		1,667					
Total	28,721	$	1,070,294	91,548	$	264,976	$	

(1) Except for John E. Rooney, represents the number of TDS shares with respect to which the options were exercised. In the case of John E. Rooney, represents Common Shares of U.S. Cellular (USM shares).

(2) Represents the aggregate dollar value realized upon exercise, based on the difference between the exercise price and the fair market value on the date of exercise of the TDS shares or, in the case of Mr. Rooney USM Common Shares.

(3) Except for John E. Rooney, represents the number of tandem TDS Common Shares and Special Common Shares subject to options. In the case of Mr. Rooney, the information is presented with respect to USM shares. All options are transferable to permitted transferees.

(4) Except for John E. Rooney, represents the aggregate dollar value of in-the-money, unexercised options held at the end of the fiscal year, based on the difference between the exercise price and the market value of TDS shares subject to options on December 31, 2005. As a result of the special common stock dividend, all options to purchase Common Shares as of May 13, 2005, whether vested or unvested, were adjusted into tandem options. The tandem options provide that upon exercise, the optionee will acquire the number of Common Shares originally subject to the option plus an equal number of Special Common Shares for the original exercise price. The market value of a tandem share was $70.64 on December 31, 2005, representing the sum of the closing price of $36.03 for the TDS Common Shares and $34.61 for the TDS Special Common Shares. In the case of Mr. Rooney, represents the aggregate dollar value of in-the-money, unexercised options held at the end of the fiscal year, based on the difference between the exercise price and $49.40, the market value of USM Common Shares on December 31, 2005.

(5) Such options represent tandem options to purchase an equal number of TDS Common Shares and TDS Special Common Shares and became exercisable on December 15, 2005 and are exercisable until April 20, 2015 at the exercise price of $77.36 per tandem option.

(6) Such options became exercisable on December 15, 2004 (except with respect to Mr. Barr, whose options become exercisable on April 30, 2005) and are exercisable until May 8, 2014 at the exercise price of $66.00 per share.

(7) Such options became exercisable on December 15, 2003 and are exercisable until July, 2013 at the exercise price of $52.92 per share.

(8) Such options became exercisable with respect to LeRoy T. Carlson, Jr., on December 15, 2002 and are exercisable until August 19, 2012 at the exercise price of $60.12 per share. With respect to Ms. Helton, Mr. Barr and Mr. Williamson, such options became exercisable on December 15, 2002 and are exercisable until July 5, 2012 at the exercise price of $59.00 per share.

(9) Such options became exercisable on December 15, 2001 and are exercisable until April 30, 2011 at the exercise price of $99.44 per share.

(10) Such options became exercisable in annual increments of 25% on December 15, 2001 and on each anniversary of such date until December 15, 2004 and are exercisable until September 15, 2010 at the exercise price of $121.12 per share. (except with respect to Mr. Williamson, whose options are exercisable until September 16, 2010 at the exercise price of $117.51 per share).

(11) Such options became exercisable on December 15, 2000 and are exercisable until May 5, 2010 at the exercise price of $105.13 per share.

(12) Such options became exercisable on December 15, 1999 and are exercisable until April 30, 2009 at the exercise price of $66.75 per share.

(13) Such options became exercisable with respect to one-third of the shares on each of December 15, 1998, December 15, 1999 and December 15, 2000, and are exercisable until November 5, 2007 at the exercise price of $43.75 per share.

(14) Such options became exercisable on December 15, 1998 and are exercisable until June 22, 2008 at the exercise price of $39.75 per share.

(15) Such options became exercisable on December 15, 1997 and are exercisable until December 15, 2007 at the exercise price of $43.88 per share.

(16) Such options became exercisable on December 15, 1996 and are exercisable until December 15, 2006 at the exercise price of $47.60 per share.

(17) Such options became exercisable on December 15, 1995 and were exercisable until December 15, 2005 at the exercise price of $38.12 per share.

(18) Such options became exercisable with respect to 12,000 shares on each of December 15, 1998, December 15, 1999 and December 15, 2000, and are exercisable until September 15, 2008 at an exercise price of $33.87 per share.

(19) Such options became exercisable in annual increments of 20% on December 15, 2000 and on each anniversary of such date through December 15, 2004, and are exercisable until March 10, 2010 at the exercise price of $104.00 per share.

(20) The 2005 USM Options become exercisable in annual increments of 25% on March 31, 2006 and become fully vested on October 10, 2006, and are exercisable until March 31, 2015 at an exercise price of $45.63

(21) The 2004 USM Options became exercisable in annual increments of 25% on March 31, 2005 and 2006 and become fully vested on October 10, 2006, and are exercisable until March 31, 2014 at an exercise price of $38.65.

(22) The 2003 USM Options became exercisable in annual increments of 25% on March 31 2004, 2005 and 2006 and become fully vested on October 10, 2006, and are exercisable until March 31, 2013 at an exercise price of $24.47.

(23) The 2002 USM Options became exercisable in annual increments of 25% on March 31 of each year, beginning in 2003 and ending in 2006, and are exercisable until March 31, 2012 at an exercise price of $41.00.

(24) The 2001 USM Options became exercisable in annual increments of 20% on March 31 of each year beginning in 2002 and ending in 2006, and are exercisable until March 31, 2011 at an exercise price of $59.40.

(25) The 2000 USM Initial Options became exercisable with respect to 20% of the shares underlying the option on April 10 of each year, beginning in 2001 and ending in 2005, and are exercisable until April 10, 2010 at an exercise price of $69.19 per share.

Tax Deferred Savings Plan

The TDS tax deferred savings plan (TDS Tax Deferred Savings Plan) is a qualified profit sharing plan under Sections 401(a) and 401(k) of the Internal Revenue Code, designed to provide retirement benefits for eligible employees of TDS and certain of its affiliates which adopted the TDS Tax Deferred Savings Plan. Participating employees have the option of investing their contributions and TDS s contributions in a TDS Common Share fund, a TDS Special Common Share fund, a USM Common Share fund or certain unaffiliated mutual funds. Prior to May 31, 2006, TDS and participating employers made matching contributions to the plan in cash equal to 100% of an employee s contribution up to the first 2% and 40% of an employee s contribution up to the next 4% of such employee s compensation. Beginning May 31, 2006, TDS and participating employers make matching contributions to the plan in cash equal to 100% of an employee s contributions up to the first 3% and 40% of an employee s contributions up to the next 2% of such employee s compensation.

The amounts of the annual contributions for the benefit of the named executive officers under the TDS Tax Deferred Savings Plan are included above in the Summary Compensation Table under All Other Compensation.

Pension Plans and Supplemental Benefit Agreements

The TDS employees pension trust (the TDS Target Pension Plan) was a defined contribution plan designed to provide retirement benefits for eligible employees of TDS and certain of its affiliates which adopted the TDS Target Pension Plan. Annual employer contributions based upon actuarial assumptions were made under a formula designed to fund a target pension benefit for each participant commencing generally upon the participant s attainment of retirement age.

U.S. Cellular previously had adopted the TDS wireless companies pension plan (the Wireless Pension Plan). The Wireless Pension Plan, a qualified non-contributory defined contribution pension plan, provided pension benefits for employees of U.S. Cellular. Under the Wireless Pension Plan, pension contributions were calculated separately for each participant, based on a fixed percentage of the participant s qualifying compensation, and were funded currently.

Effective January 1, 2001, the TDS Target Pension Plan was merged with and into the Wireless Pension Plan and the new merged plan has been titled the TDS Pension Plan. All of the plan assets which had been held for the TDS Target Pension Plan and the Wireless Pension Plan were combined to be held on a consolidated basis for the new TDS Pension Plan, which will pay all benefits which previously accrued under both the TDS Target Pension Plan and the Wireless Pension Plan and all future pension plan accruals. All eligible participants who have been receiving target pension benefits under the TDS Target Pension Plan will continue to be eligible for target pension benefits under the TDS Pension Plan. Similarly, eligible participants who have been receiving a pension benefit contribution based on a fixed percentage of their qualifying compensation under the Wireless Pension Plan will continue to be eligible for such benefit under the TDS Pension Plan. All newly eligible employees of both TDS and U.S. Cellular and their affiliates will only be eligible for the pension benefit contribution based on a fixed percentage of qualifying compensation as previously provided under the Wireless Pension Plan.

The amounts of the annual contributions for the benefit of the named executive officers under the TDS Target Pension Plan and/or the Wireless Pension Plan are included above in the Summary Compensation Table under All Other Compensation.

The TDS supplemental executive retirement plan (SERP) has provided supplemental benefits under the TDS Pension Plan and the Wireless Pension Plan and effective January 1, 2001, the new TDS Pension Plan. The SERP was established to offset the reduction of benefits caused by the limitation on annual employee compensation which can be considered for tax qualified pension plans under the Internal Revenue Code. The SERP is a non-qualified deferred compensation plan and is intended to be unfunded. The amounts of the accruals for the benefit of the named executive officers are included above in the Summary Compensation Table under All Other Compensation.

In 1980, TDS entered into a non-qualified supplemental benefit agreement with LeRoy T. Carlson which, as amended, requires TDS to pay a supplemental retirement benefit to Mr. Carlson in the amount of $47,567 plus interest at a rate equal to 1⁄4% under the prime rate for the period from May 15, 1981 (the date of Mr. Carlson s 65th birthday) to May 31, 1992, in five annual installments beginning June 1, 2001, plus interest at 9½% compounded semi-annually from June 1, 1992. The agreement was entered into because certain amendments made to the TDS Pension Plan in 1974 had the effect of reducing the amount of retirement benefits, which Mr. Carlson would receive under the TDS Pension Plan. The payments to be made under the agreement, together with the retirement benefits under the TDS Pension Plan, were designed to permit Mr. Carlson to receive approximately the same retirement benefits he would have received had the TDS Pension Plan not been amended. The amount of interest accrued under this agreement for 2005 was $5,999.

Deferred Compensation Agreements

James Barr III is a party to an executive deferred compensation agreement, pursuant to which a specified percentage of his gross compensation is deferred and credited to a deferred compensation account. The deferred compensation account is credited with interest compounded monthly, computed at a rate equal to one-twelfth of the sum of the average thirty-year Treasury Bond rate plus 1.25 percentage points until the deferred compensation amount is paid to such person. The amount of compensation deferred by such person is included in and reported with all other non-deferred compensation in the Summary Compensation Table. No amount is included in the Summary Compensation Table for the interest earned on such deferred compensation because such interest rate is intended to approximate a market rate.

Bonus Deferral and Stock Unit Match Program

The 2004 Long-Term Incentive Plan, as amended and restated, provides the opportunity for those who are employed by TDS at the position of Vice President or above to defer receipt of a portion of their bonuses and receive TDS matching stock unit credits. Executives may elect to defer receipt of all or a portion of their annual bonuses and to receive stock unit matches on the amount deferred up to $400,000. Deferred compensation will be deemed invested in phantom TDS Special Common Shares. TDS match amounts will depend on the amount of annual bonus that is deferred into stock units. Participants receive a 25% stock unit match for amounts deferred up to 50% of their total annual bonus and a 33% match for amounts that exceed 50% of their total annual bonus. The matched stock units vest ratably at a rate of one-third per year over three years. The fair market value of the matched stock units is reported in the Summary Compensation Table under Other Annual Compensation.

LeRoy T. Carlson, Jr., has deferred 20% of his 2005 bonus and, accordingly, will receive a 25% stock unit match for this deferred bonus under the TDS Long-Term Incentive Plan. The bonus for 2005 has not yet been determined for LeRoy T. Carlson, Jr., and therefore, the dollar value of the company match phantom stock units cannot be determined at this time. See the Summary Compensation Table.

In addition, U.S. Cellular has a similar plan pursuant to which John E. Rooney may defer compensation and receive stock unit matches with respect to U.S. Cellular Common Shares. Any stock unit matches received by Mr. Rooney are reported in the Summary Compensation Table under Other Annual Compensation.

Other Agreements

On March 6, 2006, TDS and James Barr III, President and Chief Executive Officer of TDS Telecommunications Corporation, entered into an amendment of an arrangement relating to Mr. Barr s employment and retirement. Under the amended arrangement, because Mr. Barr remained employed with TDS Telecom until at least March 31, 2005, (i) all of Mr. Barr s stock options will become fully vested on the date of his retirement and (ii) TDS will pay Mr. Barr a sum equal to his then current annual salary in twenty-four equal monthly installments, with the initial six installments to be paid on or as soon as administratively practicable following the six month anniversary of his retirement and the remaining 18 installments to be paid each month after the six month anniversary of his retirement. Mr. Barr will be required to provide consulting services to TDS during such period in consideration for such payments. If Mr. Barr is demoted or terminated prior to his retirement for any reason other than a serious violation of TDS s Code of Business Conduct, TDS will pay Mr. Barr a sum equal to Mr. Barr s then annual salary. On February 21, 2006, TDS announced that Mr. Barr will retire from his position as President and Chief Executive Officer of

TDS Telecom. Mr. Barr will step down as President and CEO of TDS Telecom on January 1, 2007. He will remain on TDS Telecom s payroll until March 23, 2007 and retire on March 24, 2007. At that time, all of his options will vest pursuant to the foregoing agreement. Mr. Barr s 2005 and 2006 restricted stock awards will vest upon his retirement in accordance with such award agreements.

TDS has entered into an agreement with LeRoy T. Carlson whereby it will employ Mr. Carlson until he elects to retire from TDS. Mr. Carlson is to be paid at least $60,000 per annum until his retirement. The agreement also provides that upon his retirement, Mr. Carlson will be retained by TDS as a part-time consultant (for not more than 60 hours in any month) until his death or disability. Upon his retirement, Mr. Carlson will receive $75,000 per annum as a consultant, plus increments beginning in 1985 equal to the greater of three percent of his consulting fee or two-thirds of the percentage increase in the consumer price index for the Chicago metropolitan area. If Mr. Carlson becomes disabled before retiring, TDS can elect to discontinue his employment and retain him in accordance with the consulting arrangement described above. Upon Mr. Carlson s death (unless his death follows his voluntary termination of his employment or the consulting arrangement), his widow will receive until her death an amount equal to that which Mr. Carlson would have received as a consultant. TDS may terminate payments under the agreement if Mr. Carlson becomes the owner of more than 21% of the stock, or becomes an officer, director, employee or paid agent of any competitor of TDS within the continental United States. No amounts were paid or payable under this agreement in 2005, 2004 or 2003.

Compensation of Directors

The board of directors has approved a compensation plan (the Non-Employee Directors Plan) for non-employee directors. A non-employee director is a director of TDS who is not an employee of TDS or its affiliates, U.S. Cellular or TDS Telecom. The purpose of the Non-Employee Directors Plan is to provide reasonable compensation to non-employee directors for their services to TDS, and to induce qualified persons to serve as non-employee members of the board of directors.

The Non-Employee Directors Plan provides that each non-employee director will receive an annual director s fee of $44,000 payable quarterly, and the chairperson will receive an additional $34,000 fee. The plan also provides that each non-employee director serving on the Audit Committee will receive an annual fee of $11,000 payable quarterly, except for the chairperson, who will receive a fee of $22,000. The plan also provides that each non-employee director will receive an annual fee of $5,000 payable quarterly, for serving on the Compensation Committee, except for the chairperson, who will receive a fee of $7,000. It also provides that each non-employee director will receive a fee of $1,750 for board of directors, Audit, Compensation and Corporate Governance Committee meetings, plus reimbursement of reasonable out-of-pocket expenses incurred in connection with travel to, and attendance at, each regularly scheduled or special meeting.

The Non-Employee Directors Plan further provides that each non-employee director will receive 50%, and may elect to receive on an annual basis up to 100%, of their retainers and meeting fees for regularly scheduled meetings of the board (five per year), by the delivery of common stock of TDS having a fair market value as of the date of payment equal to the cash amount of the retainer or fee foregone. For retainers and regularly scheduled meetings of the board during 2005, such common stock continued to consist of TDS Common Shares previously authorized; for retainers and regularly scheduled meetings of the board in 2006 and subsequent years, such common stock shall consist of TDS Special Common Shares.

Under the Non-Employee Directors Plan, for purposes of determining the number of Common or Special Common Shares deliverable in connection with any of the foregoing elections, the fair market value of a Common or Special Common Share will be the average closing price of our Common or Special Common Shares as reported in the American Stock Exchange Composite Transactions section of The Wall Street Journal for the twenty trading days before the end of the quarter or the date of the board meeting, as applicable. Our board of directors has reserved 65,000 Common Shares and 75,000 Special Common of TDS for issuance pursuant to the Non-Employee Directors Plan.

In addition, TDS pays life insurance premiums to provide life insurance of $100,000 for each of its directors. Except for such life insurance premiums, directors who are also employees of TDS or any affiliate do not receive any additional compensation for services rendered as directors. Directors are also reimbursed for travel and expenses incurred in attending board and committee meetings pursuant to TDS s travel and expense reimbursement policy.

In addition to the persons who are identified in the Summary Compensation Table that are directors of TDS, LeRoy T. Carlson is a director of TDS who receives compensation in his capacity as Chairman Emeritus of TDS. In 2005, Mr. Carlson received the following compensation from TDS, based on the categories used in the Summary Compensation Table: Salary $480,000; Bonus $200,000; Other Annual Compensation $58,000; and All Other Compensation $13,510. Mr. Carlson received a grant of options for 26,531 TDS shares (representing as of December 31, 2005 a tandem option to acquire 26,531 Common Shares and 26,531 Special Common Shares) at an exercise price of $77.36 per share that became exercisable on December 15, 2005 and that expire on April 20, 2015. Mr. Carlson also received a grant of 19,024 restricted stock units which will become vested on December 15, 2007. As a result of the Special Common Stock dividend, the options and restricted stock units represent the right to receive an equal number of TDS Common Shares and TDS Special Common Shares under the original terms.

Executive Officer Compensation Report

This report is submitted by (i) LeRoy T. Carlson, Jr., President and CEO, who served as the compensation committee of the board of directors for all executive officers of TDS (other than the President and CEO) until February 21, 2006, by (ii) Herbert S. Wander, Letitia G. Carlson, M.D. and George W. Off, who served as members of the TDS long-term compensation committee of the board of directors, which approved all compensation for the President and CEO and approved long-term compensation for executive officers of TDS until February 21, 2006, and (iii) Herbert S. Wander and George W. Off, who have been serving as members of the Compensation Committee of TDS which replaced the former compensation committee and long-term compensation committee on February 21, 2006. Long-term compensation for John E. Rooney is approved by the stock option compensation committee of U.S. Cellular (as described in its report in the proxy statement of U.S. Cellular) and Mr. Rooney s annual compensation is approved by LeRoy T. Carlson Jr., the Chairman of U.S. Cellular.

TDS s compensation policies for executive officers are intended to provide incentives for the achievement of corporate and individual performance goals and to provide compensation consistent with the financial performance of TDS. TDS s policies establish incentive compensation performance goals for executive officers based on factors over which such officers have control and which are important to TDS s long-term success. Compensation should be appropriate to the financial performance of TDS and should be sufficient to enable TDS to attract and retain individuals possessing the talents required for long-term successful performance.

Executive compensation consists of both annual and long-term compensation. Annual compensation consists of base salary and an annual bonus. Annual compensation decisions are based partly on individual and corporate short-term performance and partly on the individual and corporate cumulative long-term performance during the executive s tenure in his or her position, particularly with regard to the President and CEO. Long-term compensation is intended to compensate executives primarily for their contributions to long-term increases in shareholder value and is generally provided through the grant of stock options.

Prior to February 21, 2006, the President and CEO was provided with information about executive compensation at other companies, as reported in proxy statements and salary surveys. The President and CEO used these sources and made the determination of appropriate ranges for each executive officer based on his informed judgment, using the information provided to him by the Vice President of Human Resources, as discussed below. The range was not based on any formal analysis nor is there any documentation of the range. The base salary of each officer was set within this range based on an assessment of the responsibilities and the performance of such officer, also taking into account the performance of TDS and/or its business units or divisions, other comparable companies, the industry and the overall economy during the preceding year. After February 21, 2006, similar procedures are used by the new Compensation Committee.

Annually, the nature and extent of each executive officer s personal accomplishments and contributions for the year are determined, based on information submitted by the executive and by others familiar with his or her performance, including the executive s direct supervisor. Prior to February 21, 2006, the President and CEO evaluated the information in terms of the personal objectives established for such executive officer for the performance appraisal period. The President and CEO also made an assessment of how well TDS did as a whole during the year and the extent to which the President and CEO believes the executive officer contributed to the results. With respect to executive officers having primary responsibility over a certain business unit or division of TDS, the President and CEO considered the performance of the business unit or division and the contribution of the executive officer thereto. No specific measures of performance are considered determinative in the compensation of executive officers. Instead, all the facts and circumstances were taken into consideration by the President and CEO. Ultimately, it was the informed judgment of the President and CEO that determined an executive s salary and bonus. After February 21, 2006, similar procedures are used by the new Compensation Committee.

The primary financial focus of TDS is increasing long-term shareholder value through growth, measured primarily in such terms as return on capital, revenues, customer units in service, operating cash flow (operating income plus depreciation and amortization) and operating income. However, there is no quantifiable relationship between compensation and such measures of performance. Instead, compensation decisions are made subjectively, considering certain performance measures, as well as other appropriate facts and circumstances.

Prior to February 21, 2006, the President and CEO of TDS also approved annual bonus compensation for executive officers of TDS and each of its business units or divisions. The Vice President-Human Resources prepared appropriate information, for the annual compensation reviews of executive officers. TDS has no written or formal corporate executive bonus plan. The bonuses for corporate executive officers was determined by the President and CEO based on his evaluation of each executive s contribution to TDS, the achievement of individual objectives, the performance of TDS and/or its business units and divisions and all other facts and circumstances considered appropriate in his judgment. The 2005 bonuses approved for the named executives are listed above in the Summary Compensation Table. After February 21, 2006, similar procedures are used by the new Compensation Committee.

Prior to February 21, 2006, the annual compensation of the President and CEO of TDS was approved by the long-term compensation committee. After February 21, 2006, the annual compensation of the President and CEO of TDS is approved by the reconstituted Compensation Committee. The Vice President Human Resources prepares for the committee an analysis of compensation paid to chief executive officers of other comparable companies, including the companies in the peer group index described below under Stock Performance Chart , as well as other companies in the telecommunications industry and other industries, to the extent considered appropriate, based on similar size, function, geography or otherwise. This information is presented to the committee, which approves the final base salary and bonus of the President and CEO based on such information. The committee approved a bonus of $875,000 for the President and CEO for the year 2004, and increased his 2005 base salary to $1,050,000, representing an increase of $80,000 or 8.2% over his base salary of $970,000 in 2004. The long-term compensation committee has not yet approved the 2005 bonus or base salary for 2006 for the President and CEO. As with the other executive officers, the compensation of the President and CEO is determined on the basis of the committee s analysis of multiple factors rather than specific measures of performance. The Compensation Committee has access to numerous performance measures and financial statistics prepared by TDS. This financial information includes the audited financial statements of TDS, as well as internal financial reports such as budgets and their results, operating statistics and other analyses. The committee may also consider such other factors the committee deems appropriate in making its compensation decisions. Ultimately, it is the informed judgment of the committee, after reviewing the compensation information provided by the Vice President Human Resources, that determines the salary and bonus for the President and CEO.

As discussed above, the primary financial focus of TDS is the increase of long-term shareholder value through growth, measured primarily in such terms as return on capital, revenues, customer units in service, operating cash flow (operating income plus depreciation and amortization) and operating income. However, as discussed above, there is no quantifiable relationship between compensation and such measures of performance. Instead, compensation decisions are made subjectively, considering certain performance measurers, as well as all other appropriate facts and circumstances.

The undersigned persons that participate in the approval of the compensation of the President and CEO believe that the total compensation (base salary and bonus) of the President and CEO has been set at an appropriate level considering, among other things, compensation of executives at companies which it considers comparable. Such persons base this belief on his or her personal assessment and judgment of the President and CEO s responsibilities in comparison to those of chief executive officers and chief operating officers of the companies included in the peer group index described below under Stock Performance Chart , as well as other companies in the telecommunications industry and other industries with similar characteristics, based on the information prepared by the Vice President Human Resources, as discussed above. The President and CEO has a substantial beneficial interest in TDS, as described below under Security Ownership of Management , and will benefit together with other shareholders based on the performance of TDS. Such persons have taken this fact into account in their review and approval of the President and CEO s salary and bonus.

The President and CEO may recommend long-term compensation in the form of additional stock option grants, stock appreciation rights or otherwise for executive officers. Prior to February 21, 2006, this recommendation was made to the long-term compensation committee. After February 21, 2006, this recommendation is made to the new Compensation Committee. Prior to February 21, 2006, long-term compensation decisions for executive officers were made by the long-term compensation committee and after February 21, 2006, are now made by the new Compensation Committee, in a manner similar to that described for annual base salary and bonus decisions, except that the stock options will generally vest over several years, in order to reflect the goal of relating long-term compensation of executive officers, including the President and CEO, to increases in shareholder value over the same period.

The performance of TDS is also a factor in determining the number of stock options which will be awarded and become exercisable with respect to the executive officers. As indicated under the table Individual Option Grants in 2005 , certain named executive officers received an award of Performance Options in 2005 based on the achievement of certain levels of corporate and individual performance in 2004.

The new Compensation Committee is in the process of retaining its own independent compensation consultant.

Section 162(m) of the Code. Subject to certain exceptions, section 162(m) of the Internal Revenue Code generally provides a $1 million annual limit on the amount that a publicly held corporation is allowed to deduct as compensation paid to each of the corporation s chief executive officer and the corporation s other four most highly compensated officers. TDS does not believe that the $1 million deduction limitation should have a material effect on TDS in the immediate future. If the $1 million deduction limitation is expected to have a material effect on TDS in the future, TDS will consider ways to maximize the deductibility of executive compensation, while retaining the discretion TDS deems necessary to compensate executive officers in a manner commensurate with performance and the competitive environment for executive talent.

This Executive Officer Compensation Report is submitted by LeRoy T. Carlson, Jr., Herbert S. Wander, Letitia G. Carlson, M.D. and George W. Off.

Stock Performance Chart

The following chart graphs the performance of the cumulative total return to shareholders (stock price appreciation plus dividends) during the previous five years in comparison to returns of the Standard & Poor s 500 Composite Stock Price Index and a peer group index. The peer group index was constructed specifically for TDS and includes the following companies: ALLTEL Corp., Centennial Communications Corp. (formerly known as Centennial Cellular Corp.) (Class A), CenturyTel, Inc. (formerly known as Century Telephone Enterprise, Inc.), Citizens Communications Co. (formerly known as Citizen Utilities) (Series B), Rural Cellular Corp. (Class A) and TDS. The peer group no longer includes Western Wireless Corp. (Class A) because it was acquired by ALLTEL in 2005. In calculating the peer group index, the returns of each company in the group have been weighted according to such company s market capitalization at the beginning of the period.

COMPARATIVE FIVE-YEAR TOTAL RETURNS*
TDS, S&P 500, PEER GROUP
(PERFORMANCE RESULTS THROUGH 12/31/05)

	December 31,					
	2000	*2001*	*2002*	*2003*	*2004*	*2005*
TDS	$ 100.00	$ 100.28	$ 53.07	$ 71.45	$ 88.67	$ 81.97
S&P 500	$ 100.00	$ 88.11	$ 68.64	$ 88.33	$ 97.94	$ 102.75
Peer Group	$ 100.00	$ 95.15	$ 76.18	$ 79.97	$ 100.89	$ 106.88

Assumes $100.00 invested at the close of trading on the last trading day preceding the first day of the fifth preceding fiscal year in TDS Common Shares, S&P 500 and Peer Group. After the close of business on May 13, 2005, TDS distributed a stock dividend of one Special Common Share of TDS with respect to each outstanding TDS Common Share and Series A Common Share. For purposes of the stock performance chart, the performance of TDS for all periods presented prior to May 13, 2005 is represented by the TDS Common Shares, and for the period between May 13, 2005 and December 31, 2005 includes both the TDS Common Shares and TDS Special Common Shares. The last closing price of TDS Common Shares on May 13, 2005 prior to the impact of the stock dividend was $74.57. The closing price on May 16, 2005, the first trading day after the stock dividend, was $38.19 for the TDS Common Shares and $36.25 for the TDS Special Common Shares, or a total of $74.44. The closing price on December 31, 2005 was $36.03 for the TDS Common Shares and $34.61 for the TDS Special Common Shares, or a total of $70.64.

* Cumulative total return assumes reinvestment of dividends.

Compensation Committee Interlocks and Insider Participation

Prior to February 21, 2006, the sole member of the compensation committee was LeRoy T. Carlson, Jr., President and CEO of TDS. The primary function of such compensation committee was to develop and administer the near term compensation policies and programs for TDS officers and key subsidiary executives, other than the President and CEO of TDS, and to administer long-term compensation for non-executive officers of TDS. Mr. Carlson is a member of the board of directors of TDS, U.S. Cellular, and TDS Telecom. He is also the Chairman of U.S. Cellular and TDS Telecom and, as such, approves the executive officer annual compensation decisions for U.S. Cellular and TDS Telecom. Mr. Carlson is compensated by TDS for his services to TDS and all its subsidiaries. However, U.S. Cellular reimburses TDS for a portion of such compensation pursuant to intercompany agreements between TDS and such subsidiaries. Prior to February 21, 2006, the long-term compensation committee of the board of directors of TDS approved all compensation for the President and CEO, considered and approved long-term compensation for TDS executive officers and for the president of TDS Telecom, and reviewed and recommended to the board of directors any long-term compensation programs for TDS employees. The members of the TDS long-term compensation committee were Herbert S. Wander (chairperson), Letitia G. Carlson, M.D. and George W. Off. Such persons are neither officers nor employees of TDS or any of its subsidiaries nor directors of any of TDS s subsidiaries. After February 21, 2006, the new Compensation Committee assumed responsibilities relating to the compensation of the executive officers of TDS (which does not include U.S. Cellular or any of its subsidiaries), including the review of salary, bonus, long-term compensation and all other compensation. The members of the Compensation Committee are Herbert S. Wander (chairperson) and George W. Off. Long-term compensation for executive officers who are employees of U.S. Cellular is approved by the stock option compensation committee of U.S. Cellular. The stock option compensation committee of U.S. Cellular is composed of directors of such subsidiary who are neither officers nor employees of TDS or any of its subsidiaries nor directors of TDS. The annual compensation of U.S. Cellular s President and Chief Executive Officer, Mr. Rooney, is approved by LeRoy T. Carlson, Jr., the Chairman of U.S. Cellular.

In addition to such compensation committee interlocks and insider participation in compensation decisions, TDS and certain related parties are involved in the following relationships and transactions.

Other Relationships and Related Transactions. The following persons are partners of Sidley Austin LLP, the principal law firm of TDS, U.S. Cellular and their subsidiaries: Walter C.D. Carlson, a trustee and beneficiary of a voting trust that controls TDS and U.S. Cellular, the non-executive Chairman of the Board and member of the board of directors of TDS and a director of U.S. Cellular; 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 and/or an Assistant Secretary of U.S. Cellular and certain subsidiaries of TDS. Mr. Carlson does not provide legal services to TDS, U.S. Cellular or their subsidiaries.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION

The following table provides information as of December 31, 2005 regarding TDS Common Shares and Special Common Shares that may be issued under equity compensation plans currently maintained by TDS.

Plan Category	*(a) Number of securities to be issued upon the exercise of outstanding options and rights*	*(b) Weighted-average exercise price of outstanding options and rights for tandem shares*	*(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))*
Equity compensation plans approved by security holders(1)			
TDS Common Shares	2,802,013		879,217
TDS Special Common		$ 73.79	
Shares	2,789,878		9,518,815
Equity compensation plans not approved by security holders(2)			
TDS Common Shares	1,739		9,607
TDS Special Common		$ 45.01	
Shares	1,739		-0-
Total			
TDS Common Shares	2,803,752		888,824
TDS Special Common		$ 73.77	
Shares	2,791,617		9,518,815

(1) This includes the following plans that have been approved by TDS shareholders:

Plan	*Number of securities to be issued upon the exercise of outstanding options and rights*	*Number of securities remaining available for future issuance (excluding securities reflected in prior column)*
2004 Long-Term Incentive Plan		
TDS Common Shares	2,737,657	879,217
TDS Special Common Shares	2,737,657	9,123,936
1994 Long-Term Incentive Plan		
TDS Common Shares	52,221	-0-
TDS Special Common Shares	52,221	-0-
2003 Employee Stock Purchase Plan		
TDS Common Shares	9,516	-0-
TDS Special Common Shares	-0-	320,000
Compensation Plan for Non-Employee Directors		
TDS Common Shares	2,619	-0-
TDS Special Common Shares	-0-	74,879
Total		
TDS Common Shares	2,802,013	879,217
TDS Special Common Shares	2,789,878	9,518,815

As a result of the special common stock dividend, all options to purchase Common Shares as of May 13, 2005 under the 2004 and 1994 Long Term Incentive Plan, whether vested or unvested, were adjusted into tandem options. The tandem options provide that upon exercise, the optionee will acquire the number of Common Shares originally subject to the option plus an equal number of Special Common Shares for the original exercise price.

As a result of the special common stock dividend, the 2003 Employee Stock Purchase Plan was amended as of January 1, 2006 to replace the right to purchase TDS Common Shares with the right to purchase TDS Special Common Shares.

As a result of the special common stock dividend, the Compensation Plan for Non-Employee Directors was amended to provide that, for retainers and regularly scheduled meetings of the board during 2005, the common stock issued under such plan continued to consist of Common Shares and that, for retainers and regularly scheduled meetings of the board in 2006 and subsequent years, such common stock shall consist of Special Common Shares.

See Note 19 Dividend Reinvestment, Incentive and Compensation Plans, in the notes to the consolidated financial statements included in our 2005 Annual Report to Shareholders for certain information about these plans, which is incorporated by reference herein.

(2) This includes the following plans that have not been approved by TDS shareholders:

Plan	*Number of securities to be issued upon the exercise of outstanding options and rights*	*Number of securities remaining available for future issuance (excluding securities reflected in prior column)*
Quest Plan		
TDS Common Shares	-0-	9,607
TDS Special Common Shares	-0-	-0-
Chorus Stock Incentive Plan		
TDS Common Shares	1,739	-0-
TDS Special Common Shares	1,739	-0-
Total		
TDS Common Shares	1,739	9,607
TDS Special Common Shares	1,739	-0-

As a result of the special common stock dividend, all options to purchase Common Shares as of May 13, 2005 under the Chorus Stock Incentive Plan, whether vested or unvested, were adjusted into tandem options. The tandem options provide that upon exercise, the optionee will acquire the number of Common Shares originally subject to the option plus an equal number of Special Common Shares for the original exercise price.

The material terms of the Compensation Plan for Non-Employee Directors are set forth above under Compensation of Directors and are incorporated by reference herein.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

On May 31, 2006 TDS had outstanding and entitled to vote 51,431,735 Common Shares, par value $.01 per share (excluding 5,070,834 Common Shares held by TDS and 484,012 Common Shares held by a subsidiary of TDS); 57,782,076 Special Common Shares, par value $.01 per share (excluding 5,104,832 Special Common shares held by TDS and 484,012 Special Common Shares held by a subsidiary of TDS); 6,446,079 Series A Common Shares, par value $.01 per share; and 38,627 Preferred Shares, par value $.01 per share.

Each of the outstanding Common Shares and Preferred Shares is entitled to one vote and each of the outstanding Series A Common Shares is entitled to ten votes. Accordingly, the voting power of all outstanding Series A Common Shares was 64,460,790 votes. The total voting power of all outstanding shares of all classes of capital stock was 115,931,152 votes at May 31, 2006 with respect to matters other than the election of directors.

Each of the outstanding Special Common Shares is entitled to one vote per share in the election of 25 percent of the directors plus one director (or four of the twelve present directors). Other than as required by law, holders of Special Common Shares do not have any right to vote on any matters except in the election of certain directors, as described above.

Security Ownership of Management

The following table sets forth as of May 31, 2006, or the latest practicable date, the number of Common Shares, Special Common Shares and Series A Common Shares beneficially owned, and the percentage of the outstanding shares of each such class so owned by each director and nominee for director of TDS, by each of the executive officers named in the Summary Compensation Table and by all directors and executive officers as a group.

Name of Individual or Number of Persons in Group	***Title of Class or Series***	***Amount and Nature of Beneficial Ownership(1)***	***Percent of Class or Series***	***Percent of Shares of Common Stock***	***Percent of Voting Power(2)***
LeRoy T. Carlson, Jr., Walter C.D. Carlson, Letitia G. Carlson, M.D. and Prudence E. Carlson(3)	Special Common Shares	6,073,410	10.5%	5.3%	
	Series A Common Shares	6,085,696	94.4%	5.3%	52.5%
LeRoy T. Carlson(4)(10)	Common Shares	290,666	*	*	*
	Special Common Shares	342,701	*	*	
	Series A Common Shares	53,055	*	*	*
LeRoy T. Carlson, Jr.(5)(10)	Common Shares	589,986	1.1%	*	*
	Special Common Shares	604,287	1.0%	*	
	Series A Common Shares	17,908	*	*	*
Walter C.D. Carlson(6)	Common Shares	5,826	*	*	*
	Special Common Shares	5,118	*	*	
	Series A Common Shares	879	*	*	*
Letitia G. Carlson, M.D.(7)	Common Shares	2,109	*	*	*
	Special Common Shares	2,546	*	*	
	Series A Common Shares	949	*	*	*
Sandra L. Helton(10)	Common Shares	224,994	*	*	*
	Special Common Shares	224,995	*	*	
James Barr III(10)	Common Shares	104,348	*	*	*
	Special Common Shares	104,122	*	*	
Donald C. Nebergall(9)	Common Shares	3,302	*	*	*
	Special Common Shares	3,783	*	*	
	Series A Common Shares	1,052	*	*	*
Herbert S. Wander	Common Shares	3,159	*	*	*
	Special Common Shares	2,497	*	*	
George W. Off	Common Shares	4,391	*	*	*
	Special Common Shares	3,667	*	*	
Martin L. Solomon	Common Shares	3,794	*	*	*
	Special Common Shares	2,863	*	*	
Christopher D. O Leary	Common Shares				
	Special Common Shares				

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Mitchell H. Saranow	Common Shares	1,926	*	*	*
	Special Common Shares	1,356	*	*	
John E. Rooney	Common Shares	1,812	*	*	*
	Special Common Shares	1,304	*	*	
Scott H. Williamson(10)	Common Shares	92,912	*	*	*
	Special Common Shares	92,912	*	*	
All directors, director nominees and executive officers as a group (18 persons)(8)(10)	Common Shares	1,491,331	2.9 %	1.3 %	1.3 %
	Special Common Shares	7,635,131	13.2 %	6.6 %	
	Series A Common Shares	6,165,039	95.6 %	5.3 %	53.2 %

* Less than 1%

(1) The nature of beneficial ownership for shares in this column is sole voting and investment power, except as otherwise set forth in these footnotes.

(2) Represents the percent of voting power in matters other than the election of directors.

(3) The shares listed are held by the persons named as trustees under a voting trust which expires June 30, 2035, created to facilitate long-standing relationships among the trust certificate holders. Under the terms of the voting trust, the trustees hold and vote the TDS Special Common and Series A Common Shares held in the trust. If the voting trust were terminated, the following individuals, directly or indirectly, would each be deemed to own beneficially more than 5% of the outstanding TDS Series A Common Shares: LeRoy T. Carlson, Jr., Catherine Mouly (wife of LeRoy T. Carlson, Jr.), Walter C.D. Carlson, Prudence E. Carlson, Richard Beckett (husband of Prudence E. Carlson), and Letitia G. Carlson, M.D.

(4) Includes 52,694 Special Common Shares and 53,055 Series A Common Shares held by Mr. Carlson s wife. Mr. Carlson disclaims beneficial ownership of such shares. Does not include 29,147 Special Common Shares and 32,945 Series A Common Shares held for the benefit of LeRoy T. Carlson or 187,554 Special Common and 188,623 Series A Common Shares held for the benefit of Mr. Carlson s wife (an aggregate of 216,701 Special Common Shares and 221,568 Series A Common Shares, or 3.4% of class) in the voting trust described in footnote (3). Beneficial ownership is disclaimed as to Series A Common Shares held for the benefit of his wife.

(5) Includes 1,156 Common Shares, 6,434 Special Common Shares and 5,275 Series A Common Shares held by Mr. Carlson s wife outside the voting trust. Does not include 1,811,787 Special Common Shares (3.1% of class) held in the voting trust described in footnote (3), of which 173,065 shares are held for the benefit of LeRoy T. Carlson, Jr. and 1,545,851 shares are held by family partnerships, of which Mr. Carlson is a general partner. Beneficial ownership is disclaimed with respect to an aggregate of 92,871 Special Common Shares held for the benefit of his wife, his children and others in such voting trust.

Does not include 1,816,776 Series A Common Shares (28.2% of class) held in the voting trust described in footnote (3), of which 174,954 shares are held for the benefit of LeRoy T. Carlson, Jr. and 1,548,987 shares are held by family partnerships, of which Mr. Carlson is a general partner. Beneficial ownership is disclaimed with respect to an aggregate of 92,835 Series A Common Shares held for the benefit of his wife, his children and others in such voting trust.

(6) Does not include 1,891,795 Special Common Shares (3.3% of class) held in the voting trust described in footnote (3), of which shares 1,093,813 are held for the benefit of Walter C.D. Carlson and 683,158 shares are held by a family partnership, of which Mr. Carlson is a general partner. Beneficial ownership is disclaimed with respect to an aggregate of 114,824 Special Common Shares held for the benefit of his wife and children in such voting trust.

Does not include 1,897,945 Series A Common Shares (29.4% of class) held in the voting trust described in footnote (3), of which shares 1,096,867 are held for the benefit of Walter C.D. Carlson and 686,295 shares are held by a family partnership, of which Mr. Carlson is a general partner. Beneficial ownership is disclaimed with respect to an aggregate of 114,783 Series A Common Shares held for the benefit of his wife and children in such voting trust.

(7) Does not include 1,837,119 Special Common Shares (3.2% of class) held in the voting trust described in footnote (3), of which shares 1,056,351 are held for the benefit of Letitia G. Carlson, M.D. and 683,158 shares are held by a family partnership, of which Dr. Carlson is a general partner. Beneficial ownerships is disclaimed with respect to an aggregate of 97,610 Special Common Shares held for the benefit of his wife and children in such voting trust.

Does not include 1,840,820 Series A Common Shares (28.6% of class) held in the voting trust described in footnote (3), of which 1,056,348 shares are held for the benefit of Letitia G. Carlson, M.D. and 686,295 shares are held by a family partnership, of which Dr. Carlson is a general partner. Beneficial ownership is disclaimed with respect to an aggregate of 98,177 Series A Common Shares held for the benefit of her husband and children in such voting trust.

(8) Includes shares as to which voting and/or investment power is shared, and/or shares held by spouse and/or children.

(9) Does not include 441,556 Special Common (.8% of class) and 441,386 Series A Common Shares (6.8% of class) held as trustee under trusts for the benefit of the heirs of LeRoy T. and Margaret D. Carlson, or 287 Special Common Shares or 287 Series A Common Shares held for the benefit of Donald C. Nebergall, which are included in the voting trust described in footnote (3).

(10) Includes the following number of tandem Common Shares and Special Common Shares that may be purchased pursuant to stock options and/or stock appreciation rights which are currently exercisable or exercisable on May 31, 2006 or within 60 days thereof: Mr. LeRoy T. Carlson, 255,413 shares; Mr. LeRoy T. Carlson, Jr., 565,269 shares; Sandra L. Helton, 224,763 shares; James Barr III, 98,583 shares; Scott H. Williamson, 91,548 shares; all other executive officers, 143,089 shares; and all directors and executive officers as a group 1,378,655 shares.

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Security Ownership by Certain Beneficial Owners

In addition to persons listed in the preceding table and the footnotes thereto, the following table sets forth as of May 31, 2006 or the latest practicable date, information regarding each person who is known to TDS to own beneficially more than 5% of any class of voting securities of TDS, based on publicly available information and TDS s stock records as of such date. The nature of beneficial ownership in this table is sole voting and investment power except as otherwise set forth in footnotes thereto.

Shareholder s Name and Address	*Title of Class or Series*	*Shares of Class or Series Owned*	*Percent of Class*	*Percent of Shares of Common Stock*	*Percent of Voting Power(1)*
Southeastern Asset Management, Inc.(2)(3) 6410 Poplar Ave., Suite 900 Memphis, TN 38119	Common Shares	4,744,900	9.2%	4.1%	4.1%
	Special Common Shares	17,293,537	29.9%	15.0%	
Capital Research and Management Company(4)(5) 333 South Hope Street Los Angeles, CA 90071	Common Shares	6,704,200	13.0%	5.8%	5.8%
	Special Common Shares	7,074,200	12.2%	6.1%	
Gabelli Funds, LLC(6)(7) One Corporate Center Rye, NY 10580	Common Shares	4,321,781	8.4%	3.7%	3.7%
	Special Common Shares	3,466,470	6.0%	3.0%	
Wallace R. Weitz & Company(8) 1125 South 103rd Street, Suite 600 Omaha, NE 68124-6008	Common Shares	2,446,300	4.8%	2.1%	2.1%
	Special Common Shares	3,811,000	6.6%	3.3%	
Bennet Miller Lafayette, IN 47905(9)	Preferred Shares	30,000	77.7%	N/A	*

* Less than 1%

(1) Represents voting power in matters other than election of directors.

(2) Based on a Schedule 13D (Amendment No. 10) filed with the SEC, Southeastern Asset Management reports that it has sole power to vote or direct the vote of 2,690,300 Common Shares and shared power to vote 1,530,800 Common Shares. Southeastern Asset Management reports that it has sole power to dispose or to direct the disposition of 3,208,100 Common Shares and shared power to dispose or direct the disposition of 1,530,800 Common Shares, and no power of disposition with respect to 6,000 Common Shares.

(3) Based on a Schedule 13D (Amendment No. 8) filed with the SEC, Southeastern Asset Management reports that it has sole power to vote or direct the vote of 9,108,000 Special Common Shares and shared power to vote 5,666,200 Special Common Shares. Southeastern Asset Management reports that it has sole power to dispose or to direct the disposition of 11,621,337 Special Common Shares and shared power to dispose or direct the disposition of 5,666,200 Special Common Shares, and no power of disposition with respect to 6,000 Common Shares.

(4) Based on a Schedule 13G (Amendment No. 2) filed with the SEC on February 10, 2006. In such Schedule 13G, Capital Research and Management Company reports no sole or shared voting power and reports sole power to dispose or to direct the disposition of 6,704,200 Common Shares.

(5) Based on a Schedule 13G (Amendment No. 1) filed with the SEC on February 10, 2006. In such Schedule 13G, Capital Research and Management Company reports no sole or shared voting power and reports sole power to dispose or to direct the disposition of 7,074,200 Special Common Shares.

(6) Based upon a Schedule 13D (Amendment No. 11) filed with the SEC. Includes Common Shares held by the following affiliates: GAMCO Investors, Inc. 2,705,502 Common Shares; Gabelli Funds, LLC 1,608,779 Common Shares; Gabelli Group Capital Partners, Inc. 4,000 Common Shares; Mario J. Gabelli 2,500 Common Shares; and Gabelli Securities, Inc. 1,000 Common Shares. In such Schedule 13D, such group reports sole or shared investment authority over 4,321,781 Common Shares and has reported sole voting power with respect to 4,117,781 Common Shares.

(7) Based upon a Schedule 13D (Amendment No. 1) filed with the SEC. Includes Special Common Shares held by the following affiliates: GAMCO Investors, Inc. 2,132,170 Special Common Shares; Gabelli Funds, LLC 1,299,800 Special Common Shares; GGCP, Inc. 4,000 Special Common Shares; Mario J. Gabelli 2,500 Special Common Shares; and Gabelli Securities, Inc. 28,000 Special Common Shares. In such Schedule 13D, such group reports sole or shared investment authority over 3,466,470 Common Shares and has reported sole voting power with respect to 3,301,470 Common Shares.

(8) Based on the most recent Schedule 13G (Amendment No.4) filed with the SEC, Wallace R. Weitz & Company reports that it has sole or shared power to vote or direct the vote of 3,780,200 Special Common Shares and sole or shared power to dispose or to direct the disposition of 3,811,000 Special Common Shares.

(9) Represents Series TT Preferred Shares.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16 of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder require TDS s directors and officers, and persons who are deemed to own more than ten percent of the Common Shares, to file certain reports with the SEC with respect to their beneficial ownership of Common Shares. The reporting persons are also required to furnish TDS with copies of all such reports they file.

Based on a review of copies of such reports furnished to TDS by the reporting persons and written representations by directors and officers of TDS, TDS believes that all filing requirements under Section 16 of the Securities Exchange Act applicable to the reporting persons during and with respect to 2005 were complied with on a timely basis.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See Executive Compensation Compensation Committee Interlocks and Insider Participation.

SHAREHOLDER PROPOSALS FOR THE 2007 ANNUAL MEETING

TDS s 2006 annual meeting is being held on September 12, 2006. TDS expects to hold the 2007 annual meeting on May 10, 2007. Since May 10 is a change of more than 30 days from September 12, under SEC rules, the deadline for shareholder proposals to be included in TDS s proxy statement for the 2007 annual meeting is a reasonable time before TDS begins to print and mail its proxy materials. Since TDS intends to resume its regular schedule for its annual meeting next year, it will regard any proper shareholder proposal submitted for inclusion in the 2007 proxy statement to have been received a reasonable time before TDS begins to print and mail its proxy materials if such proposal is duly received by TDS not later than December 12, 2006, which is 120 days prior to the expected date of TDS s 2007 proxy statement.

Under TDS s bylaws, if the date of the 2007 annual meeting of shareholders is changed by more than 30 calendar days from the date of the 2006 annual meeting of shareholders, director nominations by shareholders and shareholder proposals must be received by us not later than the close of business on the tenth day following the date of public notice of the date of the 2007 annual meeting of shareholders. TDS hereby gives public notice that the date of the 2007 annual meeting of shareholders will be on May 10, 2007. Nevertheless, pursuant to SEC rules as described in the preceding paragraph, any proper director nomination or shareholder proposal duly received by TDS no later than December 12, 2006 will be permitted to be presented at the 2007 annual meeting of shareholders.

Because December 12, 2006 will be at least 45 days prior to the date of the proxy statement for the 2007 annual meeting, which is expected to be approximately April 11, 2007, the proxy solicited by the Board of Directors for the 2007 annual meeting will confer discretionary authority to vote on any matter that may properly come before such meeting or any adjustment thereof, other than with respect to proposals that are included in the proxy statement relating to such meeting.

SOLICITATION OF PROXIES

Your proxy is being solicited by the board of directors and its agents, and the cost of solicitation will be paid by TDS. Officers, directors and regular employees of TDS, acting on its behalf, may also solicit proxies by mail, email, advertisement, telephone, telegraph, in person or other methods. None of such persons will receive additional compensation for such solicitations. TDS has also retained MacKenzie Partners, Inc. to assist in the solicitation of proxies. The standard fee for an annual meeting is $7,500 plus reimbursement of out-of-pocket expenses. TDS will, at its expense, request brokers and other custodians, nominees and fiduciaries to forward proxy soliciting material to the beneficial owners of shares held of record by such persons.

FINANCIAL INFORMATION

We will furnish you without charge a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, including the financial statements and the schedules thereto, upon the written or oral request of any shareholder as of the record date, and will provide copies of the exhibits to any such documents upon payment of a reasonable fee which shall not exceed our reasonable expenses incurred to do so. Requests for such materials should be directed to Investor Relations, Telephone and Data Systems, Inc., 30 North LaSalle Street, 40th Floor, Chicago, Illinois 60602, telephone (312) 630-1900.

OTHER BUSINESS

It is not anticipated that any action will be asked of the shareholders other than those set forth above, but if other matters are properly brought before the annual meeting, the persons named in the proxy will vote in accordance with their best judgment.

By order of the Board of Directors

Kevin C. Gallagher
Vice President and Corporate Secretary

All shareholders are urged to sign, date and mail their proxies promptly or vote on the Internet in accordance with the instructions set forth on the proxy card.

EXHIBIT A

Audit Committee of the Board of Directors of

Telephone and Data Systems, Inc.

CHARTER*

I. PURPOSE

The purpose of the Audit Committee shall be to assist the Board of Directors of the Company in fulfilling its oversight responsibilities with respect to the quality, integrity and annual independent audit of the Company s financial statements and other matters set forth herein.

II. COMPOSITION/ELIGIBILITY

The Audit Committee shall be comprised of directors who shall satisfy the independence and other requirements of the American Stock Exchange (the *AMEX*), as well as other applicable requirements for audit committee service imposed by the Securities Exchange Act of 1934, as amended (the *Act*), or the rules of the Securities and Exchange Commission (the *SEC*). Determination as to whether a particular director satisfies the requirements for membership on the Audit Committee shall be made by the Board of Directors.

III. EXTERNAL ADVISORS

The Audit Committee shall have authority to engage independent counsel and other advisers as it deems necessary to carry out its duties. The Audit Committee shall also have authority to obtain advice and assistance from any officer or employee of the Company.

IV. FUNDING

The Company shall provide appropriate funding, as determined by the Audit Committee, for payment of (i) compensation to the Company s independent public accountants as well as any other accounting firm engaged to perform audit, review or attest services for the Company, (ii) any independent counsel or other adviser retained by the Audit Committee and (iii) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties. The Audit Committee shall promptly report to the Board of Directors its engagement of any advisor, including the scope and terms of such engagement.

V. FUNCTIONS

The Audit Committee shall:

1. meet as often as it determines, but not less frequently than quarterly;

2. be directly responsible for the appointment, compensation, retention and oversight of the work of the Company s independent public accountants (including resolution of disagreements between management and the independent public accountants regarding financial reporting) and the independent public accountants shall report directly to the Audit Committee;

3. ensure receipt of an annual formal written statement from the Company s independent public accountants delineating all relationships between the independent public accountants and the Company and discuss with the independent public accountants any such relationships that may impact the objectivity and independence of the independent public accountants; and take appropriate action to oversee the independence of the independent public accountants;

4. obtain and review annually, prior to the filing of the Company s Annual Report on Form 10-K, a report from the independent public accountants describing (a) all critical accounting policies and practices used or to be used in the annual audit of the Company s year-end financial statements (the *Annual Audit*), (b) all alternative treatments

within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, including ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent public accountants, and (c) other material written communications between the independent public accountants and management, such as any management letter or schedule of unadjusted differences, and discuss with the independent public accountants any material issues raised in such report;

5. be responsible for the preapproval of all audit services and permissible non-audit services to be provided to the Company by the independent public accountants, subject to any exceptions provided in the Act and the rules of the SEC promulgated thereunder (it being understood that the Audit Committee may delegate to one or more of its members the authority to grant such preapprovals, provided that any preapproval by such member or members must be presented to the full Audit Committee at its next scheduled meeting);

6. review, in consultation with the independent public accountants, the internal auditing staff of the Company, and such other advisors as the Audit Committee may deem necessary, the scope, purpose and procedures of the overall audit plans of the internal auditing staff and the independent public accountants, review the results thereof and take any necessary actions in connection therewith;

7. review external and internal audit reports of the Company;

8. consult with the independent public accountants, senior management, the internal auditing staff of the Company and such other advisers as the Audit Committee may deem necessary regarding their evaluation of the adequacy of the Company s internal controls over financial reporting and disclosure controls and procedures (as such terms are defined by the SEC), and make specific recommendations to the Board of Directors in connection therewith;

9. assure the regular rotation of the lead audit partner and the concurring partner every five years (with a five year time-out period after rotation), and the regular rotation of other audit partners engaged in the Annual Audit every seven years (with a two year time-out period after rotation), or as otherwise required by law or the rules of the AMEX;

10. review recommendations made by the independent public accountants and the internal auditing staff of the Company, report to the Board of Directors with respect thereto and with respect to external and internal audit reports of the Company, and take any necessary actions in connection therewith;

11. review legal and regulatory matters that may have a material impact on the financial statements;

12. review periodically the Company s Code of Business Conduct, the Company s Code of Ethics for Board of Directors and the Company s program to monitor compliance with those Codes;

13. meet with the independent public accountants, the internal auditing staff of the Company, management, and the General Counsel of the Company in separate executive sessions to discuss any matters that the Audit Committee or these groups believe should be discussed privately with the Audit Committee;

14. review and discuss with the independent public accountants and management the Company s annual audited financial statements (including the MD&A) and recommend to the Board of Directors the inclusion of the Company s audited financial statements in its Form 10-K;

15. review and discuss with the independent public accountants and management the Company s quarterly unaudited financial statements prior to the publication of the Company s earnings release and prior to the inclusion of such financial statements (including the MD&A) in the Company s Form 10-Q;

16. prior to the filing of each Form 10-Q and the Form 10-K, be available to discuss with the independent public accountants the matters required to be discussed by Statement on Auditing Standards No. 61 and other matters that should be communicated to the Audit Committee under the professional standards of the American Institute of

Certified Public Accountants;

17. be responsible for the review and oversight of all related-party transactions, as such term is defined by the rules of the AMEX;

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18. establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters, and review periodically with management these procedures and, if appropriate, any significant complaints received, to the extent required by the Act, the rules of the SEC or the AMEX;

19. prepare a report to shareholders as required by the SEC and the AMEX;

20. review and concur on the appointment or dismissal of the Vice President of Internal Audit who functionally reports to the Audit Committee and administratively to the Company s Chief Financial Officer;

21. review annual reports from Internal Audit on Internal Audit personnel, their professional experience, their working relationship with management and ensure the independence of the Internal Audit function;

22. ensure Internal Audit has sufficient resources available to address risks at the appropriate level, including establishing a budget for Internal Audit and the compensation of the Vice President of Internal Audit;

23. review and concur on the performance of the Vice President of Internal Audit and the Internal Audit department on an annual basis, and oversee the Internal Audit function on an ongoing basis;

24. review and reassess the adequacy of this Charter on an annual basis;

25. review and evaluate at least annually its own performance and effectiveness; and

26. perform such other duties as the Board of Directors shall from time to time assign to it.

VI. LIMITATIONS

While the Audit Committee has the functions set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company s financial statements are complete and accurate or are in accordance with generally accepted accounting principles. The Company s management is principally responsible for Company accounting policies, the preparation of the financial statements and ensuring that the financial statements are prepared in accordance with generally accepted accounting principles. The Company s independent public accountants are responsible for auditing the Company s financial statements.

In its oversight capacity, the Audit Committee is neither intended nor equipped to guarantee with certainty to the full Board of Directors and stockholders the accuracy and quality of the Company s financial statements and accounting practices. Nor is it the duty of the Audit Committee to assure the Company s compliance with laws and regulations or compliance with the Company s Code of Business Conduct or the Board of Directors compliance with the Company s Code of Ethics for Board of Directors. The primary responsibility for these matters also rests with the Company s management. The Audit Committee can do no more than rely upon information it receives, questions and assesses in fulfilling its functions.

The Board of Directors and the Audit Committee also recognize that meeting the responsibilities of an Audit Committee requires a degree of flexibility. To the extent that procedures included in this Charter go beyond what is required of an Audit Committee by existing law and regulation, such procedures are meant to serve as guidelines rather than inflexible rules and the Audit Committee is encouraged to adopt such different or additional procedures as it deems necessary from time to time to fulfill its functions.

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* As adopted by the Board of Directors on November 9, 2004.

APPENDIX I

TELEPHONE AND DATA SYSTEMS, INC.

ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2005
Pursuant to SEC RULE 14(a)-3 and American Stock Exchange Section 611

The following audited financial statements and certain other financial information for the year ended December 31, 2005, represents TDS s annual report to shareholders as required by the rules and regulations of the Securities and Exchange Commission (SEC) and under the requirements of the American Stock Exchange.

TDS also is required to comply with certain listing standards of the New York Stock Exchange because it has debt listed on the New York Stock Exchange under the symbols TDA and TDI, including the disclosure of the following information in this annual report. TDS certifies compliance with such standards to the New York Stock Exchange on an annual basis within 30 days after the date of its annual meeting. In 2005, TDS submitted a Section 12(a) CEO Certification to the New York Stock Exchange within 30 days after the 2005 annual meeting stating that it was in compliance with all New York Stock Exchange listing standards. After such certification, TDS disclosed that it was not in compliance with certain New York Stock Exchange listing standards due to its failure to file with the SEC on a timely basis its quarterly report on Form 10-Q for the quarter ended September 30, 2005, its Form 10-K for the year ended December 31, 2005 and its Form 10-Q for the quarter ending March 31, 2006, and disclosed that the New York Stock Exchange issued late filing notices to TDS. TDS has since filed its quarterly report on Form 10-Q for the quarter ended September 30, 2005 and its Form 10-K for the year ended December 31, 2005. TDS will regain compliance with New York Stock Exchange listing standards when it has filed with the SEC its Forms 10-Q for the quarter ending March 31, 2006 and June 30, 2006. TDS does not expect to file its Form 10-Q for the quarter ended June 30, 2006 on a timely basis or by the date of the 2006 annual meeting. Accordingly, TDS does not expect to be in compliance with all New York Stock Exchange listing standards as of the date of its 2006 annual meeting. In addition, pursuant to Section 303A.12(a) of the New York Stock Exchange Listing Standards, this confirms that TDS filed with the SEC the CEO/CFO certifications required under Section 302 of the Sarbanes-Oxley Act as an Exhibit to its Annual Report on Form 10-K for the year ended December 31, 2005.

The following information was filed as Exhibit 13 to TDS s Annual Report on Form 10-K for the year ended December 31, 2005.

Exhibit 13

Telephone and Data Systems, Inc. and Subsidiaries

Financial Report

Telephone and Data Systems, Inc. and Subsidiaries

Management s Discussion and Analysis of Financial Condition and Results of Operations

Telephone and Data Systems, Inc. (TDS) is a diversified telecommunications company providing high-quality telecommunications services to approximately 6.7 million wireless telephone customers and wireline telephone equivalent access lines in 36 states at December 31, 2005. TDS conducts substantially all of its wireless telephone operations through its 81.3%-owned subsidiary, United States Cellular Corporation (U.S. Cellular), and its incumbent local exchange carrier and competitive local exchange carrier wireline telephone operations through its wholly owned subsidiary, TDS Telecommunications Corporation (TDS Telecom). TDS conducts printing and distribution services through its 80%-owned subsidiary, Suttle Straus, which represents a small portion of TDS s operations.

The following discussion and analysis should be read in conjunction with TDS s audited consolidated financial statements and footnotes included herein and the description of TDS s business included in Item 1 of the TDS Annual Report on Form 10-K for the year ended December 31, 2005.

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.

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 a customer service focus and a high-quality wireless network.

U.S. Cellular s business development strategy is to purchase controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. Its largest contiguous service area is in the Midwest/Southwest, where it serves 3.4 million customers and owns licenses covering a total population of more than 32 million. 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 most recently completed transactions and service launches are summarized below.

- On January 6, 2006, Carroll Wireless was granted applications for 16 licensed areas for which it was the successful bidder in the auction of wireless spectrum designated by the FCC as Auction 58, which ended on February 15, 2005. These 16 licensed areas cover portions of 10 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas.

- On December 19, 2005, U.S. Cellular completed the exchange of certain wireless markets with ALLTEL Communications, Inc. (ALLTEL). U.S. Cellular acquired fifteen Rural Service Area (RSA) markets in Kansas and Nebraska in exchange for two RSA markets in Idaho and $58.1 million in cash, including a preliminary working capital adjustment, and paid $2.6 million of capitalized acquisition costs.

- On December 20, 2004, U.S. Cellular completed the sale of the Daytona Beach, Florida 20 megahertz C block personal communication service license to MetroPCS California/Florida, Inc. (MetroPCS) for $8.5 million.

- On November 30, 2004, U.S. Cellular completed the sale of certain wireless properties to ALLTEL for $80.2 million in cash. The properties sold included two consolidated operating markets and five minority interests.

- On February 18, 2004, U.S. Cellular completed the sale of certain wireless properties in southern Texas to AT&T Wireless Services, Inc. (AT&T Wireless), now Cingular, for $96.5 million in cash.

- On August 1, 2003, U.S. Cellular completed the transfer of properties to AT&T Wireless and the assignments to it by AT&T Wireless of a portion of the wireless licenses covered by the agreement with AT&T Wireless. On the initial closing date, U.S. Cellular transferred wireless assets and customers in 10 markets in Florida and Georgia to AT&T Wireless. In return, U.S. Cellular received approximately $34 million in cash and minority interests in six wireless markets in which it owns a controlling interest.

In addition to the cash and minority interests, U.S. Cellular will have received a total of 36 wireless licenses in 13 states when the transaction is fully consummated. U.S. Cellular has deferred the assignment and development of 21 of these licenses it has the right to acquire from AT&T Wireless for up to five years from August 1, 2003.

U.S. Cellular launched service in St. Louis, Missouri in 2005 and Lincoln, Nebraska; Oklahoma City, Oklahoma; and Portland, Maine in 2004. Licenses for these markets were acquired as part of the 2003 transaction with AT&T Wireless.

U.S. Cellular operating income increased 33% in 2005 and 69% in 2004. The increase in income in 2005 primarily reflected increases in service revenues and gains on sales of assets. The increase in 2004 primarily reflected increases in revenues and gain on sales of assets and the absence of losses on impairments and sales of assets compared to 2003. Increased revenues in both years were primarily driven by growth in the number of customers served by U.S. Cellular s systems. Operating income margin (as a percent of service revenues) was 8.6% in 2005, 7.0% in 2004 and 4.5% in 2003.

Although operating income margin improved in 2005, TDS anticipates that there will be continued pressure on U.S. Cellular operating income and operating income margins in the next few years related to the following factors:

- costs of customer acquisition and retention;
- effects of competition;
- providing service in recently launched areas;
- potential increases in prepaid and reseller customers as a percentage of U.S. Cellular s customer base; and
- continued enhancements to its wireless networks.

In the exchange and divestiture transactions discussed previously, U.S. Cellular has generally divested operations that were generating revenues, cash flows from operations and operating income; however, a significant portion of such revenues, cash flows from operations and operating income was attributable to inbound roaming traffic and was not primarily generated by U.S. Cellular s customers in those markets. In exchange, U.S. Cellular received operational markets which were generating revenues, cash flows from operations and operating income; cash; and licenses or will receive licenses that will be in a development phase for several years.

U.S. Cellular used cash proceeds from these exchange and divestiture transactions to help defray costs related to building out new markets. U.S. Cellular anticipates that it may require debt or equity financing over the next few years for capital expenditures and to further its growth in recently launched markets. However, U.S. Cellular has substantial borrowing capacity available under its revolving credit agreement to meet those needs.

See Results of Operations Wireless Telephone 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 and suburban communities. TDS Telecom s business plan is designed for a full-service

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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. The strategy places primary emphasis on small- and medium-sized commercial customers and residential customers. An important component of TDS Telecom s business strategy is to develop high-growth service, particularly in the data arena. In light of the growth of Internet use and rapid introduction of new telecommunications technology, TDS Telecom intends to offer a suite of data products in all of its markets, thereby positioning itself as a full-service data networking service provider.

Both incumbent local exchange carriers and competitive local exchange carriers are faced with significant challenges, including the industry decline in use of second lines by customers, growing competition from wireless and other wireline providers, changes in regulation, new technologies such as Voice over Internet Protocol, and the uncertainty in the economy. These challenges could have a material adverse effect on the financial condition, results of operations and cash flows of TDS Telecom.

TDS Telecom was able to increase customers and revenues in 2005 and 2004. By penetrating into existing markets, TDS Telecom s competitive local exchange carrier equivalent access lines increased 5% and 17% in 2005 and 2004, respectively, which led to 7% and 6% increases in revenues. TDS Telecom s incumbent local exchange carrier increased revenues slightly in both years through sales of vertical services such as long distance and digital subscriber line services to existing customers. TDS Telecom has also managed to remain profitable by continually seeking ways to control costs. Operating margins were 18%, 4% and 18% in 2005, 2004 and 2003, respectively. The significant decrease in operating margin in 2004 was a result of losses recorded on impairment of long-lived assets and intangible assets of the competitive local exchange carrier operations. In 2004, TDS Telecom recorded a loss on impairment of long-lived assets of $87.9 million and a loss on impairment of intangible assets of $29.4 million in the Consolidated Statements of Operations associated with the competitive local exchange carrier operations.

On November 30, 2004, TDS Telecom completed the sale of certain wireless properties to ALLTEL for $62.7 million in cash. The properties sold included a majority interest in one market and an investment interest in one market.

See Results of Operations Wireline Telephone Operations.

Financing Initiatives TDS and its subsidiaries had cash and cash equivalents totaling $1,095.8 million, $1,161.3 million of revolving credit facilities and an additional $75.0 million of bank lines of credit as of December 31, 2005. TDS and its subsidiaries are also generating substantial internal funds from operations. Cash flow from continuing operating activities totaled $880.2 million in 2005, $797.4 million in 2004 and $971.0 million in 2003. Management believes that cash on hand, expected future cash flows from operating activities 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 for the foreseeable future.

TDS seeks to maintain a strong balance sheet and an investment grade rating. During 2005, 2004 and 2003, TDS entered into several financing transactions that have provided financial flexibility as it continues to grow its wireless and wireline businesses:

2005

- TDS Telecom subsidiaries repaid approximately $232.6 million in principal amount of notes to the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB), the Federal Financing Bank (FFB), and the Rural Telephone Finance Cooperative (RTFC).
- TDS issued $116.25 million in aggregate principal amount of unsecured 6.625% senior notes due March 31, 2045.
- TDS redeemed medium-term notes of $17.2 million.

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2004

- U.S. Cellular sold $330 million of 30-year, 7.5% senior notes and $100 million of 30-year, 6.7% senior notes, the proceeds of which were used to redeem $250 million of 7.25% senior notes and $163.3 million of 6% zero coupon convertible redeemable debentures (also known as Liquid Yield Option Notes).

- TDS and U.S. Cellular extended the maturity date of their respective revolving credit facilities to December 2009.

- TDS repurchased 214,800 of its Common Shares and U.S. Cellular repurchased 91,700 of its Common Shares.

2003

- TDS redeemed $300 million of its Trust Originated Preferred Securities.

- U.S. Cellular sold $444 million of 30-year, 6.7% senior notes.

- U.S. Cellular increased the capacity of its revolving credit facility entered into in 2002 from $325 million to $700 million, and canceled its $500 million revolving credit facility.

- TDS redeemed medium-term notes of $70.5 million.

- TDS repurchased 1,961,000 of its Common Shares.

See Financial Resources and Liquidity and Capital Resources.

RESULTS OF OPERATIONS

Operating Revenues increased $256.2 million, or 7%, to $3,960.1 million in 2005 from $3,703.9 million in 2004, and increased $248.7 million, or 7%, in 2004 from $3,455.2 million in 2003 reflecting growth in wireless customers. U.S. Cellular operating revenues increased $227.7 million, or 8%, to $3,035.9 million in 2005 from $2,808.2 million in 2004, and increased $230.4 million, or 9%, in 2004 from $2,577.8 million in 2003. Revenue growth primarily reflects wireless customer growth of 11% in 2005 and 12% in 2004. TDS Telecom operating revenues increased $26.0 million, or 3%, to $906.1 million in 2005 from $880.1 million in 2004, and increased $17.1 million, or 2%, in 2003 from $863.0 million in 2003. Wireline equivalent access lines increased by 2% in 2005 and 6% in 2004. The majority of growth in equivalent access lines in both years occurred at TDS Telecom s competitive local exchange operations.

Operating Expenses increased $80.2 million, or 2%, to $3,562.1 million in 2005 from $3,481.9 million in 2004, and increased $288.3 million, or 9%, in 2004 from $3,193.6 million in 2003. U.S. Cellular operating expenses increased $166.7 million, or 6%, to $2,791.6 million in 2005 from $2,624.9 million in 2004, and increased $155.9 million, or 6%, in 2004 from $2,469.0 million in 2003 due primarily to the costs associated with providing service to an expanding customer base, additional depreciation expense and launching new markets and acquisitions. In 2005 and 2004, U.S. Cellular operating expenses were reduced by $44.7 million and $10.8 million, respectively, of gains on sales of assets. Also included in U.S. Cellular s operating expenses in 2003 is $45.9 million of losses on sales of assets and $49.6 million of losses on impairment of intangible assets.

TDS Telecom operating expenses decreased $99.7 million, or 12%, to $743.4 million in 2005 from $843.1 million in 2004, and increased $131.4 million, or 18%, in 2004 from $711.7 million in 2003. The decrease in 2005 and the increase in 2004 were primarily caused by an $87.9 million loss on the impairment of long-lived assets and a $29.4 million loss on the impairment of intangible assets recorded in 2004. These impairments resulted from the write-off of property, plant and equipment, and goodwill at the competitive local exchange carrier business.

Operating Income increased $176.0 million, or 79%, to $398.0 million in 2005 from $222.0 million in 2004, and decreased $39.6 million, or 15%, in 2004 from $261.6 million in 2003. U.S. Cellular s operating income increased $61.0 million, or 33%, to $244.3 million in 2005 from $183.3 million in

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2004, and increased $74.6 million, or 69%, in 2004 from $108.7 million in 2003. The increase in operating income and operating income margin in 2005 reflected increased service revenues primarily due to the growth in the number of retail customers and increased gains recorded on sales of assets. The increase in 2005 was partially offset by increased selling, general and administrative expenses, increased expenses related to the launch of the new markets, decreased inbound roaming revenue resulting from a decrease in revenue per roaming minute of use, increased depreciation expense, and increased equipment subsidies. The increase in 2004 primarily reflected increased revenues and gains on sales of assets and the absence of losses on impairments and sales of assets compared to 2003. The increase in 2004 was offset by increased expenses related to the launch of new markets, decreased operating income due to divestitures of markets, increased equipment subsidies and increased depreciation expense. U.S. Cellular s 2003 operating income was significantly affected by the $45.9 million loss on sales of assets and the $49.6 million loss on impairment of intangible assets. TDS Telecom s operating income increased $125.6 million to $162.7 million in 2005 from $37.1 million in 2004, and decreased $114.2 million, or 75%, in 2004 from $151.3 million in 2003. The increase in 2005 and the decrease in 2004 primarily reflect the competitive local exchange carrier losses on the impairment of long-lived assets of $87.9 million and goodwill of $29.4 million.

Investment and other income (expense) primarily includes interest and dividend income, investment income, gain (loss) on investments and interest expense.

Investment income, TDS s share of income in unconsolidated entities in which it has a minority interest, totaled $69.8 million in 2005, $64.9 million in 2004 and $52.2 million in 2003. TDS follows the equity method of accounting for minority interests in which its ownership interest equals or exceeds 20% for corporations and greater than 3% to 5% for partnerships and limited liability companies.

TDS s investment in the Los Angeles SMSA Limited Partnership meets certain significance tests, pursuant to Rule 3-09 of SEC Regulation S-X, contributing $52.2 million, $41.8 million and $29.9 million to investment income in 2005, 2004 and 2003, respectively.

Interest and dividend income increased $129.4 million to $158.2 million in 2005 from $28.8 million in 2004, and increased $8.7 million, or 43%, in 2004 from $20.1 million in 2003. In 2005, TDS recorded dividend income on its Deutsche Telekom investment of $105.7 million. Interest income increased $20.3 million in 2005 primarily due to higher interest rates.

Interest income increased $4.1 million in 2004. U.S. Cellular earned $3.8 million of interest income on a tax refund claim. Dividend income increased $4.6 million partially caused by a $2.9 million increase in dividend income on shares owned of Vodafone.

Gain (loss) on investments. TDS recorded a loss of $4.9 million in 2005, a gain of $38.2 million in 2004, and a loss of $10.2 million in 2003.

In 2005, TDS finalized the working capital adjustment related to the sale to ALLTEL of certain wireless interests on November 30, 2004. The working capital adjustment increased the total gain on investment from this transaction by $0.5 million.

In 2005, U.S. Cellular reduced the carrying value of one of its equity method investments by $5.4 million to its underlying equity value based on a cash flow analysis.

In 2004, TDS recorded a $40.8 million gain on the sale of investment interests to ALLTEL. TDS recorded a $1.8 million loss to reflect an impairment in the carrying value of U.S. Cellular s investment in the Daytona license sold to MetroPCS and a $0.3 million loss associated with buying out the partner in the Daytona investment. TDS also recorded a $0.5 million loss on an investment in a telephone company accounted for using the cost method.

In 2003, TDS recorded a $5.0 million impairment loss on a wireless investment held by TDS Telecom. Also in 2003, a $3.5 million license impairment loss was recorded related to U.S. Cellular s investment in the Daytona license. U.S. Cellular also recorded a $1.7 million impairment loss related to a minority investment in a wireless market that is accounted for using the cost method.

Interest Expense increased $17.3 million, or 9%, to $216.0 million in 2005 from $198.7 million in 2004, and increased $27.3 million, or 16%, in 2004 from $171.4 million in 2003.

The increase in interest expense in 2005 was primarily due to an increase in interest paid on forward contracts related to interest rate increases ($24.8 million), a new debt issuance of 30-year 6.625% senior notes in March 2005 of $116.25 million ($5.9 million) and the effects of having U.S. Cellular s 6.7% and 7.5% senior notes outstanding for all of 2005 ($14.9 million). The increase in interest expense was partially offset by the repayment of U.S. Cellular s 7.25% Senior Notes ($11.6 million) and 6% Liquid Yield Option Notes, ($5.9 million) in 2004 and TDS Telecom subsidiaries $232.6 million of RUS, RTB and FFB notes in March and June of 2005 ($9.0 million). TDS also redeemed $17.2 million of medium term notes ($1.4 million) in the first quarter of 2005.

The increase in interest expense in 2004 was primarily due to new debt issuances in 2004 and 2003. U.S. Cellular issued 30-year 6.7% senior notes in June 2004 and December 2003 ($31.7 million) and issued 30-year 7.5% senior notes in June 2004 ($13.5 million). The increase in interest expense in 2004 was partially offset by the redemption of U.S. Cellular s 7.25% senior notes in August 2004 ($6.9 million) and the redemption of U.S. Cellular s Liquid Yield Option Notes in July 2004 ($3.6 million).

Minority Interest in Income of Subsidiary Trust In September 2003, TDS redeemed all $300 million of Company-Obligated Mandatorily Redeemable Preferred Securities at par plus accrued and unpaid distributions. There was no gain or loss on this transaction. Interest recorded on these securities totaled $16.7 million in 2003.

Other income (expense), net increased $2.3 million to $(8.9) million in 2005 from $(6.6) million in 2004, and decreased $7.3 million in 2004 from $(13.9) million in 2003. The increase in expense in 2005 reflects additional expenses related to the Special Common Share stock dividend of $2.9 million and the write-off of TDS Telecom s deferred debt costs of $2.2 million. The decrease in expense in 2004 reflects a $5.8 million increase in the gain on the VeriSign derivative.

Income Tax Expense was $140.6 million in 2005, $59.3 million in 2004 and $58.3 million in 2003. The corresponding effective tax rates were 35.5% in 2005, 39.9% in 2004 and 47.8% in 2003.

Income from continuing operations for each of the three years ended December 31, 2005, includes gains and losses (reported in the captions gain (loss) on investments, loss on impairment of long-lived assets, loss on impairment of intangible assets, and (gain) loss on sale of assets in the Consolidated Statements of Operations).

2005

- Tax expense of $17.4 million was recorded on the gain from the exchange of assets with ALLTEL.
- Tax benefit of $2.1 million was recorded on the loss on impairment of an unconsolidated investment.

2004

- Tax expense of $37.0 million was recorded on the gain from the sale of assets to ALLTEL and to AT&T Wireless.
- Tax benefit of $27.9 million was recorded on the loss on impairment of competitive local exchange carrier assets.
- Tax benefits of $0.9 million were recorded on impairments of assets.

2003

- Tax benefits of $19.2 million were recorded on loss on assets of U.S. Cellular operations held for sale.

- Tax benefit of $19.4 million was recorded on loss on impairment of U.S. Cellular intangible assets.
- Tax benefit of $1.9 million was recorded on loss on impairment of TDS Telecom assets.
- Tax benefit of $1.6 million was recorded on loss on U.S. Cellular investments.

The effective income tax rate excluding the items listed above was 35.1% in 2005, 23.6% in 2004 and 43.2% in 2003. The 2004 effective tax rate on operations excluding losses and gains is lower than 2003 due to favorable settlement of several tax issues in 2004. During 2005, the Internal Revenue Service (IRS) completed its audit of TDS s federal income tax returns for the years 1997 - 2001 and TDS s claims for research tax credits for the years 1995 - 2001. Primarily based on the final results of the audit, TDS reduced its accrual for audit contingencies by $3.0 million (0.8%) in 2005. Also in 2005, TDS recorded a $0.5 million (0.1%) benefit for the research tax credits. TDS reduced its accrual for audit contingencies by $21.4 million (14.4%) and recorded a $6.3 million (4.2%) benefit for the research tax credits in 2004 based on the IRS s preliminary findings in the income tax return and research tax credit audits. See Note 2 Income Taxes in the Notes to Consolidated Financial Statements for further discussion of the effective tax rates.

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

In 2005, U.S. Cellular s minority public shareholders share of U.S. Cellular s net income increased $4.5 million due primarily to U.S. Cellular s gains on the sale of assets to ALLTEL. In 2004, U.S. Cellular s minority public shareholders share of U.S. Cellular s net income increased $2.6 million due to U.S. Cellular s gains on the sale of assets to ALLTEL. In 2003, U.S. Cellular s minority public shareholders share of U.S. Cellular s net income was reduced by $10.7 million due to U.S. Cellular s loss on impairment of intangible assets and loss on sales of assets.

Year Ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands)		
Minority Share of Income			
U.S. Cellular			
Minority Public Shareholders Interest	$ (24,948)	$ (19,673)	$ (8,532)
Subsidiaries Minority Interests	(8,934)	(9,108)	(9,307)
	(33,882)	(28,781)	(17,839)
Other Subsidiaries	(138)	(91)	(140)
	$ (34,020)	$ (28,872)	$ (17,979)

Discontinued Operations. TDS is party to an indemnity agreement with T-Mobile USA, Inc. regarding certain contingent liabilities for Aerial Communications, Inc. (Aerial), a former subsidiary of TDS. TDS has recorded an accrual for expenses, primarily tax related, resulting from Aerial s merger into VoiceStream Wireless Corporation (VoiceStream) in 2000.

In 2005, TDS paid $7.1 million in settlement of items related to this indemnity which is recorded in discontinued operations on the Statement of Cash Flows.

In 2005, TDS also recorded a gain of $1.0 million ($1.5 million, net of a $0.5 million income tax expense), or $0.01 per diluted share, for discontinued operations relating to a reduction in this indemnity accrual due to the favorable outcome of a state tax audit which reduced the potential indemnity obligation.

In 2004, TDS reduced the accrued indemnity and recorded gains on discontinued operations totaling $10.2 million ($6.4 million, net of an income tax expense of $3.8 million), or $0.11 per diluted share. The accrual was reduced due to favorable outcomes of federal and state tax audits, which reduced TDS s indemnity requirements.

In 2003, TDS recorded a loss of $2.8 million ($1.6 million, net of an income tax benefit of $1.2 million), or $(0.01) per diluted share for discontinued operations for additional Aerial-related accrued liabilities.

Cumulative Effect of Accounting Changes. Effective January 1, 2003, TDS adopted SFAS No. 143, Accounting for Asset Retirement Obligations, and recorded the initial liability for legal obligations associated with an asset retirement. The cumulative effect of the implementation of this accounting standard on periods prior to 2003 was recorded in the first quarter of 2003, decreasing net income by $11.8 million, net of income taxes of $9.7 million and minority interest of $3.0 million, or $0.20 per diluted share.

Net Income Available to Common totaled $222.3 million, or $1.91 per diluted share, in 2005 compared to $66.6 million, or $0.57 per diluted share, in 2004 and $31.7 million, or $0.27 per diluted share, in 2003.

WIRELESS TELEPHONE OPERATIONS

TDS provides wireless telephone service through United States Cellular Corporation (U.S. Cellular), an 81.3%-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 change in U.S. Cellular s results of operations in 2005 and 2004. The number of customers increased 11% to 5,482,000 at December 31, 2005, and increased 12% to 4,945,000 at December 31, 2004, from 4,409,000 at December 31, 2003. In 2005, U.S. Cellular added 477,000 net new customers from its marketing distribution channels and acquired a net total of 60,000 customers in three transactions. In 2004 U.S. Cellular added 627,000 net new customers from its marketing distribution channels and disposed of a net total of 91,000 customers in two transactions. See Acquisitions, Exchanges and Divestitures for a discussion of these transactions.

U.S. Cellular owned, or had the right to acquire pursuant to certain agreements, either majority or minority interests in 241 cellular markets at December 31, 2005. A summary of the number of markets U.S. Cellular owns or has rights to acquire as of December 31, 2005 follows:

	Number of Markets
Consolidated markets (1)	189
Consolidated markets to be acquired pursuant to existing agreements (2)	28
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	241

(1) U.S. Cellular owns a controlling interest in each of these markets. This includes controlling interests in 15 licenses that U.S. Cellular purchased from ALLTEL Corporation (ALLTEL) on December 19, 2005.

(2) U.S. Cellular owns rights to acquire controlling interests in 28 additional wireless licenses. Of such 28 licenses, 21 result from an acquisition agreement with AT&T Wireless Services, Inc. (AT&T Wireless) now Cingular, which closed in August 2003. Four of the 21 licenses are in markets where U.S. Cellular currently owns personal communications service spectrum and are therefore not included in the number of consolidated markets to be acquired. U.S. Cellular has up to five years from the transaction closing date to exercise its rights to acquire the licenses.

The remaining 11 licenses relate to Carroll Wireless, L.P. (Carroll Wireless), an entity in which U.S. Cellular owns a controlling interest for financial reporting purposes. Carroll Wireless was the winning bidder of 17 wireless licenses in the auction of wireless spectrum designated by the Federal Communications Commission (FCC) as Auction 58, which ended on February 15, 2005.

On January 6, 2006, the FCC granted Carroll Wireless applications with respect to 16 of the 17 licenses for which it had been the successful bidder and dismissed one application, relating to Walla Walla, Washington. Following the completion of Auction 58, the FCC determined that a portion of the Walla Walla license was already licensed to another party and should not have been included in Auction 58. Carroll Wireless received a full refund of the amount paid to the FCC with respect to the Walla Walla license in March 2006.

Of the 16 licenses which were granted to Carroll Wireless, five are in markets in which U.S. Cellular currently owns similar spectrum; the other 11 markets represent markets which are incremental to U.S. Cellular s currently owned or acquirable markets. Only the incremental markets are included in the number of consolidated markets to be acquired to avoid duplicate reporting of overlapping markets.

(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.

Following are tables of summarized operating data for U.S. Cellular s consolidated operations:

December 31, (1a)	**2005**	**2004**	**2003**
Total market population (2)	45,244,000	44,391,000	46,267,000
Customers (3)	5,482,000	4,945,000	4,409,000
Market penetration (4)	12.12 %	11.14 %	9.53 %
Total full-time equivalent employees	7,300	6,725	6,225
Cell sites in service	5,428	4,856	4,184

For the Year Ended December 31, (1b)	**2005**	**2004**	**2003**
Net customer additions (5)	477,000	627,000	447,000
Net retail customer additions (5)	411,000	464,000	337,000
Average monthly service revenue per customer (6)	$ 45.32	$ 46.61	$ 47.29
Postpay churn rate per month (7)	1.5 %	1.5 %	1.5 %
Sales and marketing cost per gross customer addition (8)	$ 460	$ 403	$ 380

(1a) Amounts in 2005 include (i) the market acquired from Cingular in April 2005 and (ii) the 15 markets acquired from ALLTEL in December 2005; and does not include the two markets transferred to ALLTEL in the exchange transaction completed in December 2005.

Amounts in 2005 and 2004 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 2005, 2004 and 2003 include the 15 markets acquired and transferred from AT&T Wireless in August 2003, but do not include the 10 markets transferred to AT&T Wireless in August 2003.

(1b) Amounts in 2005 include (i) the market acquired from Cingular in April 2005 from April 1 through December 31 and (ii) the 15 markets acquired from ALLTEL in December 2005 from December 20 through December 31; and do not include (i) the two markets transferred to ALLTEL in the exchange transaction completed in December 2005 from December 20 through December 31.

Amounts in 2004 include (i) the results of the two markets sold to ALLTEL in November 2004 through November 30 and; (ii) the results of the six markets sold to AT&T Wireless in February 2004 through February 17.

Amounts in 2003 include (i) the results of the 10 markets transferred to AT&T Wireless in the exchange transaction completed in August 2003 through July 31; and (ii) the development and acquisition activities of the 15 markets acquired and transferred from AT&T Wireless from August 1 through December 31.

(2) Represents 100% of the population of the markets in which U.S. Cellular has a controlling financial interest for financial reporting purposes as of December 31 or each respective year. The total market population of the two markets that U.S. Cellular transferred to ALLTEL in December 2005 is excluded from this amount for 2005. The total market population of the two markets sold to ALLTEL in November 2004 and the six markets sold to AT&T Wireless

in February 2004 are excluded from this amount for 2004. The total market population of 1.5 million in the 10 markets that U.S. Cellular transferred to AT&T Wireless in August 2003 is excluded from this amount for 2003. In all years, the customers of the markets transferred or sold are not included in U.S. Cellular s consolidated customer base as of December 31 of the year of transfer or sale.

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

December 31,	2005	2004	2003
Customers on postpay service plans in which the end user is a customer of U.S. Cellular (postpay customers)	4,633,000	4,303,000	3,942,000
End user customers acquired through U.S. Cellular s agreement with a third party (reseller customers) *	555,000	467,000	316,000
Total postpay customer base	5,188,000	4,770,000	4,258,000
Customers on prepaid service plans in which the end user is a customer of U.S. Cellular (prepaid customers)	294,000	175,000	151,000
Total customers	5,482,000	4,945,000	4,409,000

* 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, 2003 and 2002 Claritas population estimates for 2005, 2004 and 2003, 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 net 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 net reseller customers added to its reseller customer base, through its marketing distribution channels, excluding any net customers transferred through acquisition or divestiture activity.

(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:

Year Ended or at December 31,	2005	2004	2003
Service Revenues (000s)	$ 2,831,571	$ 2,616,946	$ 2,418,922
Divided by average customers during period (000s)	5,207	4,679	4,263
Divided by twelve months in each period	12	12	12
Average monthly revenue per customer	$ 45.32	$ 46.61	$ 47.29

(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. 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.

Operating Revenues

Year Ended December 31,	2005	2004	2003
	(Dollars in thousands)		
Retail service (1)	$ 2,486,114	$ 2,271,280	$ 2,027,094
Inbound roaming	145,026	171,600	221,536

Long-distance and other (1)	200,431	174,066	170,292
Service Revenues	2,831,571	2,616,946	2,418,922
Equipment sales	204,316	191,255	158,832
Total Operating Revenues	$ 3,035,887	$ 2,808,201	$ 2,577,754

(1) Certain amounts reported in prior years have been reclassified to conform to current period presentation.

Operating revenues increased $227.7 million, or 8%, to $3,035.9 million in 2005 from $2,808.2 million in 2004, and increased $230.4 million, or 9%, in 2004 from $2,577.8 million in 2003.

Service revenues increased $214.7 million, or 8%, to $2,831.6 million in 2005 from $2,616.9 million in 2004, and increased $198.0 million, or 8%, in 2004 from $2,418.9 million in 2003. Service revenues primarily consist of: (i) charges for access, airtime, roaming and value-added services provided to U.S. Cellular s retail customers (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 increases in service revenues in both years were primarily due to the growth in the number of retail customers in each year. Monthly service revenue per customer averaged $45.32 in 2005, $46.61 in 2004 and $47.29 in 2003.

Retail service revenues increased $214.8 million, or 9%, to $2,486.1 million in 2005 from $2,271.3 million in 2004, and increased $244.2 million, or 12%, in 2004 from $2,027.1 million in 2003. Growth in U.S. Cellular s average customer base of 11% and 10% in 2005 and 2004, respectively, was the primary reason for the increases in retail service revenues in both years. Average monthly retail service revenues per customer decreased 2% to $39.79 in 2005 from $40.45 in 2004, and increased 2% in 2004 from $39.62 in 2003.

The increases in the average number of customers in each year were primarily driven by the net customer additions that U.S. Cellular generated from its marketing distribution channels. The average number of customers in each year was also affected by the timing of acquisitions and divestitures, including the acquisition of markets in April 2005 and December 2005 and the disposition of markets in August 2003, February 2004, November 2004 and December 2005.

U.S. Cellular anticipates that growth in its customer base will be lower in the future, primarily as a result of increased competition and higher penetration in its markets. 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.

Monthly local retail minutes of use per customer averaged 625 in 2005, 539 in 2004 and 422 in 2003. The increases in both years were driven by U.S. Cellular s focus on designing sales incentive programs and customer billing rate plans to stimulate overall usage. The impact on retail service revenue of the increases in average monthly minutes of use was offset by decreases in average revenue per minute of use in both years. The decreases in average revenue per minute of use reflect the impact of increasing competition, which has led to the inclusion of an increasing number of minutes in package pricing plans and the inclusion of features such as unlimited night and weekend minutes and unlimited inbound call minutes in certain pricing plans.

Additionally, the percentage of U.S. Cellular s customer base represented by prepaid and reseller customers, who generate lower average revenue per customer on average than postpay customers, increased from 11% at December 31, 2003 to 13% at December 31, 2004 and to 15% at December 31, 2005. U.S. Cellular anticipates that its average revenue per minute of use will continue to decline in the future, reflecting increased competition and penetration of the consumer market.

Revenues from data-related products and services, which totaled $128.3 million in 2005 and $67.0 million in 2004, positively impacted average monthly retail service revenues per customer in those years. U.S. Cellular s **easy**edgeSM products were enhanced and made available in all of its markets during 2004 and 2005. In addition, the increases in retail service revenues in both years reflect increases of $37.0 million in 2005 and $16.4 million in 2004 in amounts billed to customers to offset costs related to certain regulatory mandates, such as universal service funding, wireless number portability and E-911 infrastructure, which are being passed through to customers. In particular, the amounts U.S. Cellular charges to its customers to offset universal service funding costs increased significantly due to changes in FCC regulations beginning April 1, 2003.

Inbound roaming revenues decreased $26.6 million, or 15%, to $145.0 million in 2005 from $171.6 million in 2004, and decreased $49.9 million, or 23%, in 2004 from $221.5 million in 2003. The decreases in revenues related to inbound roaming on U.S. Cellular s systems in both years primarily resulted from a decrease in revenue per roaming minute of use, partially offset by an increase in roaming minutes used. Also contributing to the decreases in both years were the sales and transfers of markets to ALLTEL in November 2004 and AT&T Wireless in February 2004 and August 2003. These markets had historically provided substantial amounts of inbound roaming revenues.

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The increases in inbound roaming minutes of use in 2005 and 2004 were driven primarily by the overall growth in the number of customers throughout the wireless industry. The declines in revenue per minute of use in both years were primarily due to the general downward trend in negotiated rates.

U.S. Cellular anticipates that the rate of growth in inbound roaming minutes of use will be lower over the next few years, reflecting continuing growth but also higher penetration of consumer wireless markets, and that the rate of decline in average inbound roaming revenue per minute of use will be lower over the next few years, reflecting the wireless industry trend toward longer-term negotiated rates.

Long-distance and other revenues increased $26.3 million, or 15%, to $200.4 million in 2005 from $174.1 million in 2004, and increased $3.8 million, or 2%, in 2004 from $170.3 million in 2003. The increases in both years primarily reflected $18.2 million and $12.7 million increases, respectively, in competitive eligible telecommunications carrier funds received for the states in which U.S. Cellular is eligible to receive such funds. In 2005, U.S. Cellular was eligible to receive such funds in five states compared to three states during all of 2004 and most of 2003.

Partially offsetting such increases in some long-distance and other revenues in 2004 were decreases in the remaining long-distance and other revenues. The decreases were driven by price reductions primarily related to long-distance charges on roaming minutes of use as well as U.S. Cellular s increased use of pricing plans which include long-distance calling at no additional charge. These effects were partially offset by an increase in the volume of long-distance calls billed by U.S. Cellular to other wireless carriers whose customers used U.S. Cellular s systems to make long-distance calls.

Equipment sales revenues increased $13.0 million, or 7%, to $204.3 million in 2005 from $191.3 million in 2004, and increased $32.5 million, or 20%, in 2004 from $158.8 million in 2003. Equipment sales revenues include revenues from sales of handsets and related accessories to both new and current customers, as well as revenues from sales of handsets to agents. All equipment sales revenues are reported net of anticipated rebates.

During 2005, U.S. Cellular continued to offer a competitive line of quality handsets to both new and existing customers. U.S. Cellular s customer retention efforts include offering new handsets at discounted prices to existing customers as the expiration date of the customer s service contract approaches.

U.S. Cellular also continued to sell handsets to agents; this practice enables U.S. Cellular to provide better control over the quality of handsets sold to its customers, establish roaming preferences and earn quantity discounts from handset manufacturers which are passed along to agents. U.S. Cellular 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 existing customers. Equipment sales revenues from sales of handsets to agents are recognized upon delivery of the handsets to the agents, net of anticipated rebates. In most cases, rebates are paid at the time agents activate new customers or renew existing customers.

The increase in equipment sales revenues in 2005 compared to 2004 was driven primarily by an increase of 10% in the number of handsets sold. The effect of this increase in volume was partially offset by a decrease in the average revenue per handset sold, which declined 3%.

The increase in equipment sales in 2004 compared to 2003 was driven primarily by an increase of 30% in the number of handsets sold. The effect of this increase in volume was partially offset by a decrease in the average revenue per handset sold, which declined 6%.

Operating Expenses

Year Ended December 31,	2005 (Dollars in thousands)	2004	2003
System operations (excluding depreciation shown below)	$ 602,360	$ 562,690	$ 578,289
Cost of equipment sold	511,939	486,605	355,139
Selling, general and administrative	1,212,874	1,088,181	1,007,599
Depreciation	465,352	450,292	374,935
Amortization and accretion	43,720	47,910	57,564
Loss on impairment of intangible assets			49,595
(Gain) loss on sales of assets	(44,660)	(10,806)	45,908
Total Operating Expenses	$ 2,791,585	$ 2,624,872	$ 2,469,029

Operating expenses increased $166.7 million, or 6%, to $2,791.6 million in 2005 from $2,624.9 million in 2004, and increased $155.9 million, or 6%, in 2004 from $2,469.0 million in 2003.

System operations expenses (excluding depreciation) increased $39.7 million, or 7%, to $602.4 million in 2005 from $562.7 million in 2004, and decreased $15.6 million, or 3%, in 2004 from $578.3 million in 2003. 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 components of system operations expenses were as follows:

- maintenance, utility and cell site expenses increased $33.3 million, or 18%, in 2005 and $14.0 million, or 8%, in 2004, primarily driven by increases in the number of cell sites within U.S. Cellular s network. The number of cell sites totaled 5,428, 4,856 and 4,184 in 2005, 2004 and 2003, respectively, as U.S. Cellular continued to grow by expanding and enhancing coverage in its existing markets and also by launching operations in new markets;

- the cost of network usage for U.S. Cellular s systems increased $31.2 million, or 16%, in 2005 and $22.3 million, or 13%, in 2004, as total minutes used on U.S. Cellular s systems increased 35% in 2005 and 40% in 2004, partially offset by the ongoing reduction in the per-minute cost of usage for U.S. Cellular s network; such network usage costs represent the costs U.S. Cellular incurs to deliver minutes of use on its network to interconnecting wireline networks; and

- expenses incurred when U.S. Cellular s customers used other systems while roaming decreased $24.9 million, or 13%, in 2005 and decreased $51.9 million, or 22%, in 2004. Factors contributing to the decline included: (1) reductions in cost per minute, primarily resulting from the ongoing decline in negotiated roaming rates; (2) the availability of U.S. Cellular s network in markets launched in 2005 and 2004, which largely eliminated the need for its customers to incur more expensive roaming charges in those markets; and (3) the divestitures of markets to AT&T Wireless and ALLTEL in 2004 and 2003, which eliminated the roaming costs previously incurred by those markets customers. Also in 2004, U.S. Cellular received $8.1 million of refunds of sales taxes on outbound roaming transactions which had been charged to system operations expenses in prior years.

In general, system operations expenses decreased in 2005 and 2004 due to the divestitures of markets to AT&T Wireless and ALLTEL in 2004 and 2003.

In total, U.S. Cellular 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 most markets, and continues development activities in new markets; and

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- 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.

Cost of equipment sold increased \$25.3 million, or 5%, to \$511.9 million in 2005 from \$486.6 million in 2004, and increased \$131.5 million, or 37%, from \$355.1 million in 2003.

The increases in both years were primarily due to increases in the number of handsets sold, as discussed above. In 2005, the effect of higher volume in 2005 was partially offset by a decrease of 5% in the average cost per handset sold. In 2004, the overall increase also reflected an increase of 6% in the average cost per handset sold.

Selling, general and administrative expenses increased \$124.7 million, or 11%, to \$1,212.9 million in 2005 from \$1,088.2 million in 2004, and increased \$80.6 million, or 8%, in 2004 from \$1,007.6 million in 2003. 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 non-network costs of serving customers and the majority of U.S. Cellular s corporate expenses.

In both 2005 and 2004, a major factor in the increases in selling, general and administrative expenses was the higher employee-related expenses associated with acquiring, serving and retaining customers, primarily as a result of the increase in U.S. Cellular s customer base in both years.

This and other factors contributing to increases in selling, general and administrative expenses in 2005 and 2004 were as follows:

2005

- a \$28.3 million increase in agent related and sales employee-related expenses, primarily driven by the increase in full-time sales employee equivalents in 2005. These employees were added mostly in the markets launched in 2005 and 2004;

- a \$27.6 million increase in advertising costs, primarily related to the continued marketing of the U.S. Cellular® brand, with additional emphasis in the markets launched in 2005 and 2004, and also related to increases in specific sponsorships and direct and segment marketing programs;

- a \$21.5 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; and

- a \$17.1 million increase in expenses related to federal universal service fund contributions, driven by increases in both total retail service revenues, upon which the contributions are based, and the specified contribution rates. Most of the expenses related to universal service fund contributions are offset by increases in retail service revenues for amounts passed through to customers.

2004

- a \$40.1 million increase in agent related and sales employee-related expenses, primarily driven by the 15% increase in gross customer activations and the increase in customer retention transactions;

- a $31.3 million increase in advertising costs, primarily related to marketing of the U.S. Cellular brand in the Chicago market and in the markets which were launched in 2004, and the marketing of U.S. Cellular s data-related wireless services, which were launched in the second half of 2003; and

- a $13.1 million increase in expenses related to payments into the federal universal service fund, primarily due to an increase in rates due to changes in the FCC regulations, substantially all of which is offset by increases in retail service revenue for amounts passed through to customers.

The increases were partially offset by the following:

- $24.9 million decrease in billing-related expenses in 2004. The decrease was primarily due to the migration in the third quarter of 2003 of the Chicago market s operations to the same billing system used by U.S. Cellular s other markets; and

- $9.7 million and $10.0 million net decreases in bad debts expense in 2005 and 2004, respectively. In 2005, the decrease was primarily attributable to the improvement in U.S. Cellular s collections of outstanding accounts receivable. In 2004, the decrease was primarily attributable to a change in U.S. Cellular s accounting for contract termination fees charged when customers disconnect service prior to the end of their contracts. During the fourth quarter of 2003, U.S. Cellular revised its business practices related to the billing of contract termination fees. This change resulted in an increase in amounts billed to customers that ultimately were deemed uncollectible. At the time of the change in business practice, U.S. Cellular s practice was to record revenues related to such fees at the time of billing and record bad debts expense in subsequent periods when the related accounts receivable were determined to be uncollectible. In connection with the restatement discussed in Note 1 of Notes to Consolidated Financial Statements, U.S. Cellular corrected its accounting to record revenues related to such fees only upon collection in recognition of the fact that collectibility of the revenues was not reasonably assured at the time of billing; the correction was made effective October 1, 2003 to coincide with the timing of the change in business practices. As a result of the change in accounting, bad debts expense in 2004 was lower than it would have been under the accounting practice used prior to October 1, 2003. The effect of the change in accounting was partially offset by higher bad debts expense resulting from increased write-offs of accounts receivable associated with higher revenues in 2004.

Sales and marketing cost per gross customer activation totaled $460 in 2005, $403 in 2004 and $380 in 2003. The increases in both years were primarily due to increased handset subsidies, advertising expenses and sales employee-related expenses.

Sales and marketing cost per gross customer activation is not calculable using financial information derived directly from the Consolidated Statements 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.

Year ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands, except per customer amounts)		
Components of cost:			
Selling, general and administrative expenses related to the acquisition of new customers (1)	$ 551,236	$ 496,436	$ 429,149
Cost of equipment sold to new customers (2)	385,715	346,052	248,528
Less equipment sales revenues from new customers (3)	(228,668)	(214,696)	(162,240)
Total cost	$ 708,283	$ 627,792	$ 515,437
Gross customer activations (000s) (4)	1,540	1,557	1,357
Sales and marketing cost per gross customer activation	$ 460	$ 403	$ 380

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

Year ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands)		
Selling, general and administrative expenses, as reported	$ 1,212,874	$ 1,088,181	$ 1,007,599
Less expenses related to serving and retaining customers	(661,638)	(591,745)	(578,450)
Selling, general and administrative expenses related to the acquisition of new customers	$ 551,236	$ 496,436	$ 429,149

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

Year ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands)		
Cost of equipment sold as reported	$ 511,939	$ 486,605	$ 355,139
Less cost of equipment sold related to the retention of existing customers	(126,224)	(140,553)	(106,611)
Cost of equipment sold to new customers	$ 385,715	$ 346,052	$ 248,528

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

Year ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands)		
Equipment sales revenues, as reported	$ 204,316	$ 191,255	$ 158,832
Less equipment sales revenues related to the retention of existing customers, excluding agent rebates	(30,118)	(27,267)	(27,328)
Add agent rebate reductions of equipment sales revenues related to the retention of existing customers	54,470	50,708	30,736
Equipment sales revenues from new customers	$ 228,668	$ 214,696	$ 162,240

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

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 3% to $13.00 in 2005 from $13.46 in both 2004 and 2003. The decrease in 2005 reflected reductions in handset subsidies related to retention transactions and bad debts expense, as well as an increase of 11% in the average customer base. In 2004, an increase in handset subsidies related to retention transactions was offset by the effects of a reduction in bad debts expense and an increase of 10% in the average customer base.

Management uses the monthly general and administrative expenses per customer measurement to assess the cost of serving and retaining its customers on a per-unit basis.

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

Year ended December 31,	2005 (Dollars in thousands, except per customer amounts)	2004	2003
Components of cost (1):			
Selling, general and administrative expenses, as reported	$ 1,212,874	$ 1,088,181	$ 1,007,599
Less selling, general and administrative expenses related to the acquisition of new customers	(551,236)	(496,436)	(429,149)
Add cost of equipment sold related to the retention of existing customers	126,224	140,553	106,611
Less equipment sales revenues related to the retention of existing customers, excluding agent rebates	(30,118)	(27,267)	(27,328)
Add agent rebate reductions of equipment sales revenues related to the retention of existing customers	54,470	50,708	30,736
Net cost of serving and retaining customers	$ 812,214	$ 755,739	$ 688,469
Divided by average customers during period (000s) (2)	5,207	4,679	4,263
Divided by twelve months in each period	12	12	12
Average monthly general and administrative expenses per customer	$ 13.00	$ 13.46	$ 13.46

(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 each respective period as previously listed in footnote 5 to the table of summarized operating data.

Depreciation, amortization and accretion expense increased $10.9 million, or 2%, to $509.1 million in 2005 from $498.2 million in 2004, and increased $65.7 million, or 15%, from $432.5 million in 2003.

Depreciation expense increased $15.1 million, or 3%, to $465.4 million in 2005 from $450.3 million in 2004, and increased $75.4 million, or 20%, from $374.9 million in 2003. The increases in both years reflect rising average fixed asset balances, which increased 13% in 2005 and 19% in 2004. Increased fixed asset balances in both 2005 and 2004 resulted from the following factors:

- the addition of 431, 840 and 507 new cell sites to U.S. Cellular s network in 2005, 2004 and 2003 respectively, built to improve coverage and capacity in U.S. Cellular s markets, both in existing service areas as well as in areas where U.S. Cellular has launched commercial service in 2004 and 2005; and

- the addition of 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:

- $11.4 million of writedowns of fixed assets related to the disposal of assets or trade-in of older assets for replacement assets; and

- $2.7 million of writedowns of certain Time Division Multiple Access (TDMA) digital radio equipment related to its disposal or consignment for future sale. This writedown was necessary to reduce the book value of the assets to be sold to their estimated proceeds from disposition.

In 2004, additional depreciation expense was recorded related to the following:

- certain TDMA digital radio equipment consigned to a third party for future sale was taken out of service and written down by $17.2 million prior to its consignment, increasing depreciation

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expense by that amount. This write-down was necessary to reduce the book value of the assets to be sold to their estimated proceeds from disposition;

- a reduction of useful lives of certain TDMA radio equipment, switch software and antenna equipment, which increased depreciation expense $14.9 million;

- in preparation for the implementation of a fixed asset management and tracking software system, including a bar code asset identification system, U.S. Cellular conducted a physical inventory review of its cell site fixed assets. As a result of the review, U.S. Cellular charged $11.9 million to depreciation expense for the write-off of certain assets; and

- an $11.3 million addition to depreciation expense related to the write-down of the book value of certain assets to their estimated proceeds prior to their disposition.

Also, U.S. Cellular recorded $8.6 million less depreciation expense in 2004 than in 2003 as depreciation on the properties sold to AT&T Wireless and ALLTEL was only recorded through November 2003 and August 2004, respectively, in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

In 2003, U.S. Cellular took certain cell sites in which its antennae were co-located on third parties towers out of service, writing off the remaining net book value of the related assets. This write-off increased depreciation expense $7.0 million in 2003. These cell sites were acquired from another wireless carrier in a 2001 transaction.

Amortization and accretion expense decreased $4.2 million, or 9%, to $43.7 million in 2005 from $47.9 million in 2004, and decreased $9.7 million, or 17%, from $57.6 million in 2003.

The decrease in 2005 primarily represents a $4.1 million decrease in amortization of customer list intangible assets acquired in various transactions since 2002. The decrease in 2004 was primarily caused by an $8.6 million decrease in amortization related to the customer list intangible assets and other amortizable assets acquired in the Chicago market transaction during 2002. Customer list intangible assets are amortized using the declining balance method, which results in declining amortization expense each year.

In accordance with SFAS No. 143, Accounting for Asset Retirement Obligations, U.S. Cellular accretes liabilities for future remediation obligations associated with leased properties. Such accretion expense totaled $5.9 million in 2005, $5.0 million in 2004 and $4.4 million in 2003.

Loss on impairment of intangible assets totaled $49.6 million in 2003. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, U.S. Cellular performs annual impairment tests for its investment in licenses. The carrying value of the licenses in each reporting unit was compared to the estimated fair value of the licenses in each reporting unit. The license values in two reporting units were determined to be impaired and a loss of $49.6 million was recorded. Neither the 2005 and 2004 annual testing resulted in impairment.

See Application of Critical Accounting Policies and Estimates Investments in Licenses and Goodwill for further discussion of TDS s and U.S. Cellular s intangible asset impairment testing.

(Gain) loss on sales of assets totaled a gain of $44.7 million in 2005, a gain of $10.8 million in 2004 and a loss of $45.9 million in 2003.

In 2005, the gain represented the difference between the fair value of the properties U.S. Cellular received in the ALLTEL exchange transaction completed on December 19, 2005 and the $58.1 million of cash paid plus the recorded value of the assets it transferred to ALLTEL.

In 2004, the gain related to two divestitures completed in 2004. The sale of two consolidated markets to ALLTEL in November 2004 resulted in a $10.1 million gain on sales of assets. The remaining amount of $0.7 million was recorded in 2004 as a reduction of a $22.0 million estimated loss recorded in the fourth quarter 2003 on the sale of U.S. Cellular markets in southern Texas to

AT&T Wireless on February 18, 2004. The result was an aggregate loss of $21.3 million, representing the difference between the carrying value of the markets sold and the cash received in the transaction.

In 2003, $23.9 million of the total loss represents the difference between the fair value of the licenses U.S. Cellular received and expects to receive in the AT&T Wireless exchange transaction completed on August 1, 2003, and the recorded value of the Florida and Georgia market assets it transferred to AT&T Wireless. The loss also includes a $22.0 million write-down related to the wireless assets which were sold to AT&T Wireless in February 2004.

For further discussion of these transactions, see Liquidity and Capital Resources Acquisitions, Exchanges and Divestitures.

Operating Income

Operating income increased $61.0 million, or 33%, to $244.3 million in 2005 from $183.3 million in 2004, and increased $74.6 million, or 69%, in 2004 from $108.7 million in 2003. The operating income margins (as a percent of service revenues) were 8.6% in 2005, 7.0% in 2004 and 4.5% in 2003. The increases in operating income and operating income margin were due to the factors which are described in detail in Operation Revenues and Operating Expenses above.

U.S. Cellular expects many of the above factors, except for those related to new market launches and acquisition and divestiture activities, to continue to have an effect on operating income and operating income 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 income margins to fluctuate over the next several quarters.

U.S. Cellular anticipates that it will continue to invest in and incur expenses related to markets it has acquired and in which it has initiated service over the past few years. U.S. Cellular also incurred additional expenses related to the launch of data-related wireless services in all of its markets in 2005, 2004 and 2003, and expects to incur expenses related to its continued launch and marketing of data-related wireless services in the next few years.

The following are U.S. Cellular s estimates of full-year 2006 service revenues; depreciation, amortization and accretion expenses; operating income; and net retail customer activations. Except for disclosed changes, such estimates are based on U.S. Cellular s currently owned and operated markets because the effect of any possible future acquisition or disposition activity cannot be predicted with accuracy or certainty. The following estimates were updated by U.S. Cellular on July 28, 2006 and continue to represent U.S. Cellular s views as of the date of filing this Form 10-K based on current facts and circumstances. Such forward-looking statements should not be assumed to be accurate as of any future date. U.S. Cellular undertakes no duty to update such information whether as a result of new information, future events or otherwise.

	2006 Estimated Results		2005 Actual Results	
Service revenues	Approx. $3.2 billion		$	2.83 billion
Depreciation, amortization and accretion expenses	$	585 million	$	509.1 million
Operating income (1)	$	250-300 million	$	244.3 million
Net retail customer activations	370,000 - 400,000		411,000	

(1) Includes gain of $44.7 million resulting from sale of assets in 2005 Actual Results.

Effects of Competition on Operating Income

U.S. Cellular competes directly with several wireless communications services providers in each of its markets. In general, there are between four and six competitors in each wireless market in which U.S. Cellular provides service. U.S. Cellular generally competes against each of the four near-nationwide wireless companies: Verizon Wireless, Sprint/Nextel (and affiliates), Cingular and T-Mobile USA, Inc. However, not all of these competitors operate in all markets where U.S. Cellular does business. U.S. Cellular believes that these competitors have substantially greater financial, technical, marketing, sales, purchasing and distribution resources than it does.

The use of national advertising and promotional programs by such national wireless operators may be a source of additional competitive and pricing pressures in all U.S. Cellular markets, even if those operators may not provide service in a particular market. U.S. Cellular provides wireless services comparable to the national competitors, but the other wireless companies operate in a wider geographic area and are able to offer no- or low-cost roaming and long-distance calling packages over a wider area on their own networks than U.S. Cellular can offer on its network. If U.S. Cellular offers the same calling area as one of these competitors, it will incur roaming charges for calls made in portions of the calling area that are not part of its network.

In the Midwest, U.S. Cellular s largest contiguous service area, it can offer larger regional service packages without incurring significant roaming charges than it is able to offer in other parts of its network. U.S. Cellular also employs a customer satisfaction strategy throughout its markets which it believes has contributed to a relatively low customer churn rate, which in turn has had a positive impact on its cost to add a net new customer.

Some of U.S. Cellular s competitors bundle other services, such as landline telephone service and Internet access, with their wireless communications services, which U.S. Cellular either does not have the ability to offer or has chosen not to offer.

In addition, U.S. Cellular competes against both larger and smaller regional wireless companies in certain areas, including ALLTEL and Rural Cellular Corporation, and against resellers of wireless services. Since each of these competitors operates on systems using spectrum licensed by the FCC and has comparable technology and facilities, competition for customers among these systems in each market is principally on the basis of quality of service, price, size of area covered, services offered and responsiveness of customer service.

Since U.S. Cellular s competitors do not disclose their subscriber counts in specific regional service areas, market share for the competitors in each regional market cannot be accurately determined.

WIRELINE TELEPHONE OPERATIONS

TDS operates its wireline telephone operations through TDS Telecommunications Corporation (TDS Telecom), a wholly owned subsidiary. TDS Telecom served 1,183,900 equivalent access lines at the end of 2005, an increase of 26,700 lines over 2004. At the end of 2004, TDS Telecom served 1,157,200 equivalent access lines, an increase of 70,200 lines over 2003. TDS Telecom provides service through incumbent local exchange carriers and through competitive local exchange carriers. Equivalent access lines are derived by converting each high-capacity data line to the estimated equivalent number, in terms of capacity, of switched access lines.

TDS Telecom s incumbent local exchange carriers served 735,300 equivalent access lines at the end of 2005 compared to 730,400 at the end of 2004 and 722,200 at the end of 2003. The incumbent local exchange carrier operations have grown primarily through internal growth. Internal growth, net of disconnections, added 4,900 equivalent access lines in 2005, 8,200 lines in 2004 and 11,000 lines in 2003.

TDS Telecom s competitive local exchange carrier served 448,600 equivalent access lines at the end of 2005 compared to 426,800 at the end of 2004 and 364,800 lines at the end of 2003. Internal growth in equivalent access lines has occurred as competitive local exchange carrier operations have increased their presence in current markets.

TDS Telecom Operating Income

Year Ended December 31,	2005	2004	2003
	(Dollars in thousands)		
Incumbent Local Exchange			
Carrier Operations			
Operating revenues	$ 669,724	$ 658,330	$ 653,038
Operating expenses	500,791	475,152	475,894
Operating income	168,933	183,178	177,144
Competitive Local Exchange			
Carrier Operations			
Operating revenues	241,310	226,259	213,800
Operating expenses	247,549	372,367	239,657
Operating (loss)	(6,239)	(146,108)	(25,857)
Intra-company elimination			
Revenue	(4,980)	(4,444)	(3,850)
Expense	(4,980)	(4,444)	(3,850)
TDS Telecom Operating Income	$ 162,694	$ 37,070	$ 151,287

TDS Telecom s operating income increased $125.6 million to $162.7 million in 2005 from $37.1 million in 2004, and decreased $114.2 million, or 75%, in 2004 from $151.3 million in 2003. The primary causes for the increase in 2005 and the decrease in 2004 were an $87.9 million loss on the impairment of long-lived assets and a $29.4 million loss on the impairment of intangible assets of the competitive local exchange carriers recorded in 2004.

The following estimates were updated by TDS Telecom on July 28, 2006 and continue to represent TDS Telecom s views as of the date of filing this Form 10-K based on current facts and circumstances. Such forward-looking statements should not be assumed to be accurate as of any future date. TDS Telecom undertakes no legal duty to update such information whether as a result of new information, future events or otherwise. For 2006, TDS Telecom expects a slight decrease in revenues with revenues from the incumbent local exchange carrier operations in the range of $645 million to $655 million and revenues from the competitive local exchange carrier operations in the range of $230 million to $240 million. Operating income from the incumbent local exchange carrier is anticipated to range from $145 million to $155 million while competitive local exchange carrier operating losses are anticipated to be approximately $5 million.

Following is a table of summarized operating data for TDS Telecom s incumbent local exchange carrier and competitive local exchange carrier operations.

Year Ended December 31,	2005	2004	2003
Incumbent Local Exchange Carrier:			
Equivalent access lines	735,300	730,400	722,200
Growth in equivalent access lines:			
Internal growth	4,900	8,200	11,000
Dial-up Internet service accounts	90,700	101,300	112,900
Digital subscriber line (DSL) accounts	65,500	41,900	23,600
Long distance customers (1)	321,500	295,000	230,500
Competitive Local Exchange Carrier:			
Equivalent access lines	448,600	426,800	364,800
Dial-up Internet service accounts	14,200	18,200	22,200
Digital subscriber line (DSL) accounts	36,400	29,000	20,100
TDS Telecom employees	3,295	3,375	3,460

(1) Beginning January 1, 2004, long distance customers reflect those lines that have chosen TDS Telecom as their primary interexchange carrier. Prior to that, a count of customers was used.

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Incumbent Local Exchange Carrier Operations

Operating Revenues

Year Ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands)		
Local service	$ 202,021	$ 204,834	$ 199,616
Network access and long distance	373,737	362,890	363,109
Miscellaneous	93,966	90,606	90,313
Total Incumbent Local Exchange Carrier Operating Revenues	$ 669,724	$ 658,330	$ 653,038

Operating revenues increased $11.4 million, or 2%, to $669.7 million in 2005 from $658.3 million in 2004, and increased $5.3 million, or less than 1%, in 2004 from $653.0 million in 2003.

Local service revenues (provision of local telephone exchange service within the local serving area of TDS Telecom s incumbent local exchange carriers) decreased $2.8 million, or 1%, to $202.0 million in 2005 from $204.8 million in 2004, and increased $5.2 million, or 3%, in 2004 from $199.6 million in 2003. Physical access line losses resulted in decreases in revenues of $3.3 million in 2005 and $2.9 million in 2004. The sale of custom calling and advanced features increased revenues by $1.9 million in 2005 and $2.1 million in 2004. Interconnection revenues decreased $0.9 million in 2005 after an increase of $3.3 million in 2004. In addition, integrated services digital network revenues increased $1.8 million from 2003 to 2004.

Network access and long distance revenues (compensation for carrying interstate and intrastate long distance traffic on TDS Telecom s local telephone networks and reselling long distance service) increased $10.8 million, or 3%, to $373.7 million in 2005 from $362.9 million in 2004, and decreased $0.2 million, or less than 1%, in 2004 from $363.1 million in 2003. Long distance service revenues increased by $3.9 million in 2005 and $3.4 million in 2004. Revenue generated from increased network usage, including compensation from state and national pools, increased $7.6 million in 2005 and decreased $3.0 million in 2004.

Miscellaneous revenues (charges for (i) leasing, selling, installing and maintaining customer premise equipment; (ii) providing billing and collection services; (iii) providing Internet services; and (iv) selling of digital broadcast satellite service) increased $3.4 million, or 4%, to $94.0 million in 2005 from $90.6 million in 2004, and increased $0.3 million, or less than 1%, in 2004 from $90.3 million in 2003. Revenue from data transmission services including dial-up Internet service and digital subscriber line services increased $6.3 million in 2005 and $5.7 million in 2004. Digital broadcast satellite revenues decreased $1.1 million, and miscellaneous non-regulated revenues decreased $1.0 million in 2005. Revenues decreased $3.2 million in 2004 due to the conclusion of a customer contract and lower levels of sales in customer premises equipment and inside wiring.

Operating Expenses

Year Ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands)		
Cost of services and products (exclusive of depreciation and amortization included below)	$ 183,921	$ 166,262	$ 165,135
Selling, general and administrative expense	181,692	177,225	180,372
Depreciation and amortization	135,178	131,665	130,036
Loss on impairment of long-lived assets			351
Total Incumbent Local Exchange Carrier Operating Expenses	$ 500,791	$ 475,152	$ 475,894

Operating expenses increased $25.6 million, or 5%, to $500.8 million in 2005 from $475.2 million in 2004, and decreased $0.7 million, or less than 1%, in 2004 from $475.9 million in 2003. A $3.2 million charge for an early retirement incentive plan in 2005 was partially responsible for the operating expense increase in 2005 and a $7.7 million charge for an early retirement incentive plan in 2003 was

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also responsible for the decrease in 2004. Incumbent local exchange carrier expenses as a percent of revenues were 74.8% in 2005, 72.2% in 2004 and 72.9% in 2003.

Cost of services and products increased $17.6 million, or 11%, to $183.9 million in 2005 from $166.3 million in 2004, and increased $1.2 million, or less than 1%, in 2004 from $165.1 million in 2003. Local telephone company payroll increased $2.0 million in 2005 primarily due to the effects of the early retirement incentive plan in 2005 and decreased $4.0 million in 2004 primarily due to the effects of the early retirement incentive plan in 2003. The cost of providing Internet service, digital subscriber line service and long distance service to a larger customer base increased expenses $7.3 million in 2005 and $3.9 million in 2004. Cost of goods sold related to business customer premises equipment increased $1.3 million in 2005 and was flat in 2004. In addition, reciprocal compensation expenses increased $2.1 million and Universal Service Administrative Company expenses increased $1.5 million in 2005.

Selling, general and administrative expenses increased $4.5 million, or 3%, to $181.7 million in 2005 from $177.2 million in 2004, and decreased $3.2 million, or 2%, in 2004 from $180.4 million in 2003. The increase in 2005 is primarily due to the effects of the early retirement incentive plan in 2005. The decrease in 2004 primarily reflects lower expenses due to the expenses related to the employee retirement incentive plan recorded in 2003.

Depreciation and amortization expenses increased $3.5 million, or 3%, to $135.2 million in 2005 from $131.7 million in 2004, and increased $1.7 million or 1% in 2004 from $130.0 million in 2003. Investment in plant and equipment in service was fairly consistent in 2005, 2004 and 2003, producing relatively consistent depreciation expense.

Operating Income decreased $14.3 million, or 8%, to $168.9 million in 2005 from $183.2 million in 2004, and increased $6.1 million, or 3%, in 2004 from $177.1 million in 2003. The incumbent local exchange operating margin was 25.2% in 2005, 27.8% in 2004 and 27.1% in 2003. Operating margin was impacted by costs associated with early retirement incentive plans totaling $3.2 million in 2005 and $7.7 million in 2003.

TDS Telecom s incumbent local exchange carrier operations are subject to the provisions of SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. TDS Telecom periodically reviews the criteria for applying these provisions to determine whether continuing application of SFAS No. 71 is appropriate. TDS Telecom believes that such criteria are still being met and therefore has no current plans to change its method of accounting.

Competitive Local Exchange Carrier Operations

TDS Telecom began offering competitive local exchange carrier services in the fourth quarter of 1997. These services are offered in the Madison, greater Fox Valley, Milwaukee, Racine, Kenosha, Janesville and Beloit, Wisconsin markets; in the Rockford and Lake County, Illinois markets; in the greater Grand Rapids, Kalamazoo, Battle Creek, Holland, Grand Haven, Lansing, Jackson, Ann Arbor and the western suburbs of Detroit, Michigan markets; in the Minneapolis/St. Paul, Rochester, Duluth, St. Cloud and Brainerd, Minnesota markets; and in Fargo, North Dakota. Equivalent access lines increased by 5% in 2005 (21,800), 17% in 2004 (62,000) and 25% in 2003 (73,400).

Operating Revenues

Year Ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands)		
Total Competitive Local Exchange Carrier Operating Revenues	$ 241,310	$ 226,259	$ 213,800

Operating revenues (revenue from the provision of local and long-distance telephone service and access revenue from long-distance providers) increased $15.0 million, or 7%, to $241.3 million in 2005 from $226.3 million in 2004 and increased $12.5 million, or 6%, in 2004 from $213.8 million in 2003. The increases were primarily due to the increases in equivalent access lines in both years.

Retail revenues increased $18.9 million or 10% to $215.7 million in 2005 from $196.8 million in 2004 and increased $24.0 million or 14% in 2004 from $172.8 million in 2003 primarily due to access line growth in both years. Increased access lines added approximately $20.8 million to retail revenues in 2005 and $35.7 million to retail revenues in 2004. These increases were offset by decreases in revenue per access line due to both price decreases and change in customer mix.

Wholesale revenues, which represent charges to other carriers for utilizing TDS Telecom network infrastructure, decreased $3.8 million or 13% to $25.6 million in 2005 from $29.4 million in 2004 and decreased $11.6 million or 28% in 2004 from $41.0 million in 2003. Wholesale revenues in 2005 and 2004 were impacted by mandated decreases in interstate access rates which reduced revenues by approximately $4.7 million and $9.9 million in 2005 and 2004 respectively.

Operating Expenses

Year Ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands)		
Cost of services and products (exclusive of depreciation and amortization included below)	$ 102,580	$ 92,045	$ 86,377
Selling, general and administrative expense	114,531	124,623	115,354
Depreciation and amortization	30,438	38,349	33,363
Loss on impairment of long-lived assets		87,910	4,563
Loss on impairment of intangible assets		29,440	
Total Competitive Local Exchange Carrier Operating Expenses	$ 247,549	$ 372,367	$ 239,657

Operating expenses decreased $124.9 million, or 34%, to $247.5 million in 2005 from $372.4 million in 2004, and increased $132.7 million or 55% in 2004 from $239.7 million in 2003. Operating expenses decreased in 2005 and increased in 2004 primarily due to impairment losses of $87.9 million and $29.4 million recorded in 2004 on property, plant and equipment and goodwill, respectively. See Regulatory Orders for a discussion of the impairment losses.

Cost of services and products increased $10.6 million or 11%, to $102.6 million in 2005 from $92.0 million in 2004 and increased $5.6 million or 7% in 2004 from $86.4 million in 2003 primarily due to costs related to providing service to customers added. In 2005, access line growth added $6.9 million to cost of goods sold and rate increases from an incumbent carrier for unbundled network

elements added another $3.9 million, partially offset by rate decreases in other cost of goods sold. In 2004, the expense growth is virtually all attributable to customer growth.

Selling, general and administrative expenses decreased $10.1 million, or 8% to $114.5 million in 2005 from $124.6 million in 2004 and increased $9.2 million or 8% in 2004 from $115.4 in 2003. Costs for leased network components declined $7.3 million in 2005, of which $5.3 million is attributed to a favorable rate settlement with an incumbent carrier. Sales and marketing expenses decreased $3.8 million in 2005 as a result of changes in strategy on the mix of targeted customers after an increase of $4.1 million in 2004. Payroll charges decreased $2.1 million in 2005, partially offset by additional operating costs to support access line growth, and increased $2.1 million in 2004. The 2004 increase also included additional expenses incurred to secure continual access to unbundled network elements at reasonable rates.

Depreciation and amortization expenses decreased $7.9 million, or 21%, to $30.4 million in 2005 from $38.3 million in 2004 and increased $4.9 million or 15% in 2004 from $33.4 million in 2003. The 2005 decrease was a result of the 2004 impairment related decreases in the value of 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. See Regulatory Orders for a discussion of the impairment losses. Depreciation increased in 2004 due to additions to plant and equipment in service.

Operating loss totaled $6.2 million in 2005, $146.1 million in 2004 and $25.9 million in 2003. The operating loss from competitive local exchange operations increased notably in 2004 due to the losses on asset impairments.

Regulatory Orders

A number of federal and state regulatory proposals, policies and proceedings are important to TDS Telecom s competitive local exchange carrier operations. Most significantly, the FCC released two important decisions related to access to unbundled network elements by competitive local exchange carriers. The first is referred to as the Triennial Review Order. This order was released on August 21, 2003. The order was appealed, and significant portions overturned. Relevant to TDS Telecom s competitive operations, the Court upheld certain aspects of the FCC s Triennial Review Order that could limit the ability of competitive carriers to access fiber optic lines and lines that are a combination of fiber optics and copper. Appeal of this portion of the Triennial Review Order by TDS and others was denied by the Supreme Court and the rules related to fiber optic lines and combination fiber-copper lines are final.

The second important decision by the FCC is known as the Triennial Review Remand Order and was adopted on December 15, 2004, with the text of the final order released on February 4, 2005, with an effective date of March 11, 2005.The Triennial Review Remand Order significantly revised the rules related to access by competitive local exchange carriers to unbundled network elements, addressing the issues overturned by the court of appeals in relation to the Triennial Review Order. The Triennial Review Remand Order removed access to unbundled switching, and set limits on access to unbundled high capacity loops and transport in certain circumstances. However, the rules related to access to unbundled high capacity loops and transport preserve access to the most common high-capacity loops and transport currently used by TDS Telecom. To the extent that TDS Telecom competitive local exchange carrier operations rely on an unbundled network element platform provided by incumbent carriers, the Triennial Review Remand Order if not overturned on appeal, will lead to a phase-out of that method of competitive entry. Moreover, the loss of some access and transport options as a result of the Triennial Review Remand Order is unfavorable for TDS Telecom competitive local exchange carrier operations and could negatively affect the company s ability to provide broadband services to end users in new areas or to increase or expand services in existing areas.

Shortly after the issuance of the Triennial Review Remand Order, SBC announced that it was acquiring AT&T. TDS Telecom worked with a group of competitive carriers advocating that reasonable conditions be placed upon the merged companies. In its order approving the mergers, the FCC imposed two conditions that are directly favorable to TDS Telecom: 1) a two-year cap on the rates charged by AT&T (formerly SBC) for unbundled network elements; and 2) a recalculation of the wire centers where unbundled network elements will be available to remove AT&T as a separate collocator for purposes of determining if the wire center meets the threshold for denying access to certain unbundled elements under the Triennial Review Remand Order. The first condition will provide stability for a major driver of costs in the competitive operations. The second will serve to make more geographic areas available for access to unbundled network elements.

In response to petitions filed by a Regional Bell Operating Company for increases in rates for certain wholesale services that it provides to competitive local exchange carriers, the state public service commissions of Illinois, Wisconsin and Michigan issued orders that adversely affected the cost of providing some services for TDS Telecom s competitive local exchange carrier operations in those states, primarily services to residential customers and certain small business customers. The pricing data for the major markets of TDS Telecom s competitive local exchange carrier became available in the fourth quarter of 2004. These pricing changes, as well as other regulatory changes and competitive pressures in 2004, triggered an impairment review by TDS Telecom of its competitive local exchange carrier operations tangible and intangible assets. As a result of the impairment review, TDS Telecom concluded that the long-lived tangible assets of its competitive local exchange carrier operations were impaired and recorded an $87.9 million loss in the Statement of Operations in 2004. TDS Telecom also concluded that goodwill associated with the competitive local exchange carrier operations was impaired and recorded a loss of $29.4 million in the Statement of Operations in 2004. See Application of Critical Accounting Policies and Estimates Licenses and Goodwill and Property, Plant and Equipment for further discussions of the impairments.

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.

INFLATION

Management believes that inflation affects TDS s business to no greater extent than the general economy.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS 123R (revised 2004), Share-Based Payment, was issued in December 2004. In April 2005, the Securities and Exchange Commission (SEC) postponed the effective date of SFAS 123R until the issuer s first fiscal year beginning after June 15, 2005. As a result, TDS will be required to adopt SFAS 123R 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. SFAS 123R also requires that the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow. This requirement may reduce net cash flows from operating activities and increase net cash flows from financing activities in periods after adoption. In addition, in March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC s interpretation of SFAS 123R and the valuation of share-based payments for public companies.

Upon adoption of the standard on January 1, 2006, the Company will follow the modified prospective transition method and expects to value its share-based payment transactions using a Black-Scholes valuation model. Under the modified prospective transition method, TDS will recognize compensation cost in its consolidated financial statements for all awards granted after January 1, 2006 and for all existing awards for which the requisite service has not been rendered as of the date of adoption. Prior period operating results will not be restated.

SFAS No. 154, Accounting Changes and Error Corrections (SFAS 154) which replaces APB No. 20 Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements An Amendment of APB Opinion No. 28 was issued in May 2005. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. Specifically, this statement requires retrospective application of the direct effect of a voluntary change in accounting principle to prior periods financial statements, if it is practicable to do so. SFAS 154 also strictly redefines the term restatement to mean the correction of an error by revising previously issued financial statements. SFAS 154 replaces APB No. 20, which requires that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Accordingly, TDS will be required to apply the provisions of SFAS 154 to accounting changes and error corrections occurring after January 1, 2006.

Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) was issued in June 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. TDS is currently reviewing the requirements of FIN 48 and has not yet determined the impact, if any, on its 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.

Year Ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands)		
Cash flows from (used in)			
Operating activities	$ 880,223	$ 797,442	$ 970,956
Investing activities	(914,428)	(614,580)	(744,043)
Financing activities	(41,109)	47,665	(587,934)
Net increase (decrease) in cash and cash equivalents	$ (75,314)	$ 230,527	$ (361,021)

Cash Flows From Operating Activities represents a significant source of funds to TDS. Net income (loss) including adjustments to reconcile net income (loss) to net cash provided by operating activities, excluding changes in assets and liabilities from operations totaled $935.9 million in 2005, $887.3 million in 2004 and $897.5 million in 2003. Included in the adjustments to reconcile net income to net cash provided by operating activities in 2004 is a deduction for the payment of $68.1 million of accreted interest on the repayment of U.S. Cellular s Liquid Yield Option Notes. Distributions from unconsolidated investments provided $53.0 in 2005, $49.2 million in 2004 and $45.4 million in 2003. Changes in assets and liabilities from operations required $55.7 million in 2005, required $89.9 million in 2004 and provided $73.5 million in 2003, reflecting timing differences in the collection of accounts receivable, payment of accounts payable and accrued taxes.

Cash Flows From Investing Activities primarily represents uses of funds to acquire, construct 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 and cost-reducing upgrades of TDS s networks. Cash flows used for investing activities also represent cash required for the acquisition of wireless and wireline telephone properties and wireless spectrum. Proceeds from merger and divestiture transactions have provided funds in recent years which have partially offset the cash requirements for investing activities; however, such sources cannot be relied upon to provide continuing or regular sources of financing.

The primary purpose of TDS s construction and expansion expenditures is to provide for customer growth, to upgrade service, launch new markets, and to take advantage of service-enhancing and cost-reducing technological developments in order to maintain competitive services.

Cash expenditures for capital additions required $720.6 million in 2005, $806.8 million in 2004 and $776.0 million in 2003. U.S. Cellular s capital additions totaled $586.6 million in 2005, $656.2 million in 2004 and $630.9 million in 2003. These expenditures were made to fund the construction of 431, 840 and 507 new cell sites in 2005, 2004 and 2003, respectively, as well as the increase in capacity in existing cell sites and switches, the remodeling of new and existing retail stores and costs related to the development of U.S. Cellular s office systems. In 2004 and 2003, these property, plant and equipment expenditures included approximately $13 million and $58 million, respectively, for the migration to a single digital wireless equipment platform. Other additions in all three years also included significant amounts related to the replacement of retired assets.

TDS Telecom s capital additions for its incumbent local exchange carrier operations totaled $97.5 million in 2005, $103.1 million in 2004 and $111.9 million in 2003, representing expenditures for switch modernization and outside plant facilities to maintain and enhance the quality of service and offer new revenue opportunities. TDS Telecom s capital expenditures for competitive local exchange carrier operations totaled $27.1 million in 2005, $35.2 million in 2004 and $27.3 million in 2003 for switching and other network facilities.

Corporate and other capital expenditures totaled $9.4 million in 2005, $12.3 million in 2004 and $5.9 million in 2003.

Acquisitions, divestitures and exchanges, required $190.9 million in 2005 and provided $197.8 million in 2004 and $28.8 million in 2003. TDS s acquisitions include primarily the purchase of controlling interests in wireless markets and telephone properties, minority interests that increased the ownership of majority-owned markets and wireless spectrum.

In 2005, U.S. Cellular s consolidated subsidiary, Carroll Wireless, paid $120.9 million to the FCC to complete the payment for the licenses in which it was the winning bidder in the FCC s Auction 58. Carroll Wireless deposited $9.0 million with the FCC related to the wireless spectrum Auction 58 in 2004, prior to the commencement of the auction in early 2005.

U.S. Cellular paid $58.1 million related to the exchange of properties with ALLTEL completed in December 2005 and capitalized costs associated with the exchange of $2.6 million. Also, U.S. Cellular purchased a controlling interest in one wireless property and certain minority interests in wireless markets in which it already owned a controlling interest for $6.9 million in cash. TDS Telecom also purchased a wireless license for $2.8 million in 2005.

In 2004, U.S. Cellular purchased certain minority interests in several wireless markets in which it already owned a controlling interest for $40.8 million in cash. U.S. Cellular purchased two additional minority interests in majority-owned wireless markets in 2003 for $2.3 million and capitalized costs associated with the AT&T Wireless exchange of $2.8 million.

TDS received cash of $247.6 million from divestitures in 2004. The sale of wireless properties in southern Texas by U.S. Cellular to AT&T Wireless provided $96.5 million. The sale of wireless properties to ALLTEL provided U.S. Cellular $79.8 million (net of $0.4 million cash divested) and TDS Telecom $62.7 million. U.S. Cellular also received $8.5 million from the sale of Daytona in 2004 and paid $0.3 million to buy out the partner in this investment.

In 2003, U.S. Cellular received $34.0 million from AT&T Wireless in connection with the exchange of properties for licenses.

See Acquisitions, Exchanges and Divestitures in the Liquidity and Capital Resources section.

Cash Flows From Financing Activities primarily reflects changes in short-term debt balances, proceeds from the sale of long-term debt, cash used to repurchase Common Shares and cash used for the repayment of long-term notes and the repurchase and conversion of debt securities.

TDS has used short-term debt to finance acquisitions, for general corporate purposes and to repurchase Common Shares. Internally generated funds as well as proceeds from the sale of non-strategic cellular and other investments, from time to time, have been used to reduce short-term debt. In addition, TDS has taken advantage of opportunities to reduce short-term debt with proceeds from the sale of long-term debt securities, including sales of debt securities by subsidiaries.

In 2005, TDS issued $116.3 million of 6.625% senior notes due March 2045 which provided proceeds after underwriting discounts of $112.6 million. Also in 2005, TDS Telecom repaid approximately $232.6 million of RUS, RTB and FFB notes.

In 2004, U.S. Cellular issued $330 million of 7.5% senior notes due June 2034 and $100 million of 6.7% senior notes due December 2033. The net proceeds of these offerings totaled approximately $412.5 million. Of this amount, U.S. Cellular used $163.3 million to redeem its Liquid Yield Option Notes at accreted value. The balance of the net proceeds, together with borrowings under revolving credit facilities, was used to redeem all $250 million of U.S. Cellular s 7.25% senior notes. The Liquid Yield Option Notes redemption includes the repayment of principal amount of the original debt of $95.2 million, presented as an item reducing cash flow from financing activities, and the payment of $68.1 million of accreted interest, presented as an item reducing cash flow from operating activities.

In 2003, TDS redeemed and cancelled the $300 million of Trust Originated Preferred Securities. The redemption was financed with cash on hand. U.S. Cellular repaid the remaining principal amount outstanding on its 9% Series A notes with $40.7 million in cash, which was financed using U.S. Cellular s revolving credit facilities. The 9% Series A notes are now retired. In 2003, U.S. Cellular received $432.9 million net proceeds from the issuance of $444.0 million of 6.7% senior notes due December 2033. These proceeds were used to repay all outstanding borrowings under the revolving credit facility entered into in 1997.

TDS retired a total of $17.2 million and $70.5 million of medium-term notes at par value in 2005 and 2003, respectively.

No TDS Common Shares were repurchased in 2005.

Borrowings under revolving credit facilities totaled $510.0 million in 2005, $420.0 million in 2004, primarily to repay long-term debt and fund capital expenditures and $279.3 million in 2003, primarily to fund capital expenditures. Repayments under the revolving credit facilities totaled $405.0 million in 2005, $390.0 million in 2004 and $739.3 million in 2003. Dividends paid on TDS Common Stock and Preferred Shares, excluding dividends reinvested, totaled $40.6 million in 2005, $38.0 million in 2004 and $36.2 million in 2003.

From time to time, the Board of Directors of TDS has authorized the repurchase of TDS Common Shares. The most recent authorization expired in 2006 and as of May 10, 2006, there is no current authorization. No TDS Common Shares were repurchased in 2005. During 2004, TDS repurchased 214,800 of its Common Shares, for an aggregate purchase price of $14.9 million, or an average of $69.15 per share including commissions. During 2003, TDS repurchased 1,960,900 of its Common Shares, for an aggregate purchase price of $92.4 million, or an average of $47.10 per share including commissions. Cash required for the repurchase of the Common Shares totaled $20.4 million in 2004 and $86.8 million in 2003, reflecting differences in the number of shares acquired and timing differences in the cash disbursements.

The Board of Directors of U.S. Cellular from time to time has authorized the repurchase of U.S. Cellular Common Shares not owned by TDS. 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 2005. In 2004, U.S. Cellular repurchased 91,700 of its Common Shares under this authorization for an aggregate purchase price of $3.9 million, or an average of $42.62 per share including commissions. U.S. Cellular did not purchase any of its Common Shares in 2003.

LIQUIDITY AND CAPITAL RESOURCES

TDS believes that cash flows from operating activities, existing cash and cash equivalents and funds available from line of credit arrangements provide substantial financial flexibility for TDS to meet both its short- and long-term needs. TDS and its subsidiaries may have access to public and private capital markets to help meet their long-term financing needs.

However, the availability of external financial resources is dependent on economic events, business developments, technological changes, financial conditions or other factors, some of which may not be 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 cannot provide assurances that circumstances that could materially adversely affect TDS s liquidity or capital resources will not occur. Economic downturns, changes in financial markets or other factors could affect TDS s liquidity and availability of 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 programs and Common Share repurchase programs.

TDS generates substantial funds from the operations of U.S. Cellular and TDS Telecom. Cash flows from operating activities totaled $880.2 million in 2005, $797.4 million in 2004 and $971.0 million in 2003. TDS and its subsidiaries had cash and cash equivalents totaling $1,095.8 million at December 31, 2005.

Revolving Credit Facilities

As discussed below, TDS and its subsidiaries had $1,161.3 million of revolving credit facilities available for general corporate purposes as well as an additional $75 million of bank lines of credit as of December 31, 2005.

TDS had a $600 million revolving credit facility with a group of banks at December 31, 2005, and had $3.4 million of letters of credit outstanding against the revolving credit facility, leaving $596.6 million available for use. The terms of the revolving credit facility provide for borrowings with interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on TDS s credit rating. At December 31, 2005, the contractual spread was 60 basis points. The margin percentage increases by 10 basis points if more than 50% of the facility is outstanding. TDS may select borrowing periods of either seven days or one, two, three or six months (the one-month LIBOR rate was 4.39% at December 31, 2005). If TDS provides less than two days notice of intent to borrow, interest on borrowings is the prime rate less 50 basis points (the prime rate was 7.25% at December 31, 2005). The credit facility expires in December 2009.TDS currently pays facility and administration fees at an aggregate annual rate of 0.21% of the total $600 million facility. These fees totaled $0.8 million, $0.7 million and $0.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

TDS also had $75 million in direct bank lines of credit at December 31, 2005, all of which were unused. The terms of the direct bank lines of credit provide for borrowings at negotiated rates up to the prime rate.

At December 31, 2005, U.S. Cellular s $700 million revolving credit facility had $135 million of borrowings and $0.3 million of letters of credit outstanding against it leaving $564.7 million available for use. The terms of the revolving credit facility provide for borrowings with interest at the LIBOR rate plus a contractual spread based on U.S. Cellular s credit rating. At December 31, 2005, the contractual spread was 60 basis points. U.S. Cellular may select borrowing periods of either seven days or one, two, three or six months (the one-month LIBOR rate was 4.39% at December 31, 2005). If U.S. Cellular provides less than two days notice of intent to borrow, interest on borrowings is the prime rate less 50 basis points (the prime rate was 7.25% at December 31, 2005). U.S. Cellular currently pays facility and administration fees at an aggregate annual rate of 0.21% of the total facility. These fees totaled $1.0 million in 2005, $1.5 million in 2004 and $0.7 million in 2003. The credit facility expires in December 2009.

The financial covenants associated with TDS s and U.S. Cellular s lines of credit require that each company maintain certain debt-to- capital and interest coverage ratios. In addition, the financial covenants associated with revolving credit facilities and lines of credit of certain subsidiaries require that these subsidiaries maintain certain debt-to-capital and interest coverage ratios. The covenants of U.S. Cellular s revolving credit facility prescribe certain terms associated with intercompany loans from TDS or TDS subsidiaries to U.S. Cellular or U.S. Cellular subsidiaries.

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 or accelerate 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.

On July 11, 2005, Moody s Investors Service downgraded TDS and U.S. Cellular from a Baa1 rating with a negative outlook to Baa2 with a stable outlook. As a result of the downgrade, the contractual spread applied to LIBOR in determining the interest rate applicable to the borrowings under TDS and U.S. Cellular revolving credit facilities increased to 45 basis points from 30 basis points. In addition, the facility fee charged on the revolving credit agreements increased to 15 basis points from 10 basis points.

On November 10, 2005, Moody s Investors Service downgraded TDS and U.S. Cellular from a Baa2 rating with a stable outlook to Baa3 and placed the ratings under review for possible further downgrade. The contractual spread applied to LIBOR in determining the interest rate applicable to the borrowings under the TDS and U.S. Cellular revolving credit facilities increased to 60 basis points from 45 basis points. In addition, the facility fee increased to 20 basis points from 15 basis points. Standard & Poor s did not take any ratings actions holding its rating at A- with a negative outlook and Fitch s put TDS and U.S. Cellular on Rating Watch Negative and left the ratings unchanged at BBB+.

On January 25, 2006, Standard & Poors s placed the A- rating of TDS and U.S. Cellular on Credit Watch with negative implications.

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. On April 19, 2004, December 22, 2004 and November 10, 2005 TDS and U.S. Cellular announced that they would restate certain financial statements. The restatements resulted in defaults under the revolving credit agreements and one line of credit agreement. TDS and U.S. Cellular were not in violation of any covenants that require TDS and U.S. Cellular to maintain certain financial ratios. TDS and U.S. Cellular did not fail to make any scheduled payments under such credit agreements. TDS and U.S. Cellular received waivers from the lenders associated with the credit agreements, under which the lenders agreed to waive any defaults that may have occurred as a result of the restatements. The waivers require the Form 10-K for the year ended December 31, 2005 to be filed by August 31, 2006, the Form 10-Q for the quarter ended March 31, 2006 to be filed within 30 days after the filing of the Form 10-K for the year ended December 31, 2005 and the Form 10-Q for the quarter ended June 30, 2006 to be filed within 45 days after the filing of the Form 10-Q for the quarter ended March 31, 2006.

Long-Term Financing

The late filing of TDS s and U.S. Cellular s Forms 10-Q for the quarterly period ended September 30 2005, Forms 10-K for the year ended December 31, 2005 and Forms 10-Q for the period ended March 31, 2006 and the failure to deliver such Forms 10-K and 10-Q to the trustees of the TDS and U.S. Cellular debt indentures on a timely basis, resulted in non-compliance under such debt indentures. However, this non-compliance did not result in an event of default or a default. TDS and U.S. Cellular believe that non-compliance was cured upon the filing of their Forms 10-Q for the quarterly period ended September 30, 2005 and Forms 10-K for the year ended December 31, 2005, but that non-compliance continues to exist with respect to their Forms 10-Q for the quarterly period ended March 31, 2006. TDS and U.S. Cellular have not failed to make nor do they expect to fail to make any scheduled payment of principal or interest under such indentures.

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 incurred prepayment costs 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 Statements of Operations. The RUS and RTB debt, held at individual TDS Telecom incumbent local exchange carriers, had a weighted average interest rate of 5.5% and a maturity of approximately 12 years.

On June 30, 2005, TDS Telecom subsidiaries repaid approximately $127.0 million in principal amount of notes to the RUS, the RTB, and the Federal Financing Bank (FFB), all agencies of the United States Department of Agriculture, and the Rural Telephone Finance Cooperative (RTFC), a member-owned, not-for-profit lending cooperative that serves the financial needs of the rural telecommunications industry. TDS Telecom subsidiaries paid accrued interest of $0.8 million and additional prepayment costs of $1.2 million associated with these repayments. Unamortized debt issuance costs related to the notes totaling $0.3 million were expensed and included in other income (expense), net in the Statements of Operations. The RUS, RTB, FFB and RTFC debt, held at individual TDS Telecom incumbent local exchange carriers, had a weighted average interest rate of 6.2% and a maturity of approximately 15 years. TDS determined it was advantageous to repay the RUS, RTB and FFB debt to reduce administrative costs.

In connection with RTB financings, TDS Telecom purchased stock in the RTB. TDS determined that is was advantageous to repay RUS, RTB and FFB debt to reduce administrative costs and to increase financial flexibility and has repaid all of its debt to the RTB, but continued to own the RTB stock. In August 2005, the board of directors of the RTB approved resolutions to liquidate and dissolve the RTB. TDS Telecom has remitted its shares and received $101.7 million from RTB in the second quarter of 2006. TDS Telecom s book basis in the RTB stock is $9.1 million.

On December 23, 2005, TDS issued notice of its intent to redeem the $35.0 million balance of the medium-term notes in 2006. This amount was reclassified to Current portion of long-term debt on the Consolidated Balance Sheet as of December 31, 2005. TDS redeemed these notes on January 23, 2006 and February 27, 2006 at a price equal to the principal amount plus accrued interest to the redemption date.

TDS redeemed $17.2 million of medium-term notes in 2005 which carried interest rates of 9.25 9.35%. This amount was reclassified to current portion of long-term debt on the Balance Sheet as of December 31, 2004. TDS redeemed these notes on January 18, 2005 and February 10, 2005 at a price equal to the principal amount plus accrued interest to the redemption date. TDS redeemed medium-term notes aggregating $70.5 million in 2003 and recorded a loss of $0.8 million on the redemption of $5.0 million of these notes.

TDS has reclassified its $200.0 million unsecured 7% senior notes to Current portion of long-term debt on the Consolidated Balance Sheet. The unsecured 7% Senior Notes are due August 2006.

In June 2004, U.S. Cellular issued $330 million in aggregate principal amount of unsecured 7.5% senior notes due June 15, 2034. The net proceeds from this offering, after deducting underwriting discounts, were approximately $319.6 million. Also, in June 2004, U.S. Cellular issued $100 million in aggregate principal amount of unsecured 6.7% senior notes due December 15, 2033, priced to yield 7.21% to maturity. The net proceeds from this offering, after deducting underwriting discounts, were approximately $92.9 million. This was a further issuance of U.S. Cellular s 6.7% senior notes that were issued on December 8, 2003 in the aggregate principal amount of $444 million.

The total net proceeds from the 7.5% and 6.7% note offerings completed in June 2004, after deducting underwriting discounts, were approximately $412.5 million. Of this amount, $163.3 million was used to redeem U.S. Cellular s Liquid Yield Option Notes in July 2004, at accreted value. The balance of the net proceeds, together with borrowings under the revolving credit agreement, was used to redeem all $250 million of U.S. Cellular s 7.25% senior notes in August 2004. No gain or loss was recognized as a result of such redemptions. However, U.S. Cellular wrote off $3.6 million of deferred debt expenses related to the redemption of long-term debt to Other income (expense), net in the Consolidated Statements of Operations in 2004.

In December 2003, U.S. Cellular issued $444.0 million in 6.7% senior notes due December 2033. Interest is payable semi-annually. U.S. Cellular may redeem the notes, in whole or in part, at any time prior to maturity at a redemption price equal to the greater of (a) 100% of the principal amount of such notes, plus accrued but unpaid interest, or (b) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semi-annual basis at the Treasury Rate plus 0.30%.

In September 2003, TDS s subsidiary trusts, TDS Capital I and TDS Capital II, redeemed all of their outstanding Trust Originated Preferred Securities (TOPrSSM). The redemption price of both the 8.5% and 8.04% TOPrSSM was equal to 100% of the principal amount, or $25.00 per security, plus accrued and unpaid distributions. The outstanding amount of the 8.5% TOPrSSM redeemed was $150 million. The outstanding amount of the 8.04% TOPrSSM redeemed was $150 million. There was no gain or loss on the redemption of these securities. TDS wrote off deferred expenses related to the TOPrSSM totaling $8.7 million, that were previously included in Other Assets and Deferred Charges on the Consolidated Balance Sheets, to Other income (expense), net in the Consolidated Statements of Operations.

Except as described above in the first paragraph of this Long-Term Financing section, TDS believes it was in compliance as of December 31, 2005 with all covenants and other requirements set forth in long-term debt indentures. Such indentures do not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in TDS s credit rating. However, a downgrade in TDS s credit rating could adversely affect its ability to obtain long-term debt financing in the future.

TDS does not have any rating downgrade triggers that would accelerate the maturity dates of its debt. However, a downgrade in TDS s credit rating could adversely affect its ability to issue additional 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 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 in 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 than 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 when due. If shares are delivered in the settlement of the forward contracts, 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 Net deferred income tax liability on the Consolidated Balance Sheets. As of December 31, 2005, such deferred tax liabilities totaled $910.7 million.

TDS and U.S. Cellular are required to comply with certain covenants under the forward contracts. On April 19, 2004, December 22, 2004 and November 10, 2005 TDS and U.S. Cellular announced that they would restate certain financial statements. The restatements 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 restatements. The waivers require the Form 10-K for the year ended December 31, 2005 to be filed by August 31, 2006, the Form 10-Q for the quarter ended March 31, 2006 to be filed within 30 days after the filing of the Form 10-K for the year ended December 31, 2005 and the Form 10-Q for the quarter ended June 30, 2006 to be filed within 45 days after the filing of the Form 10-Q for the quarter ended March 31, 2006.

Capital Expenditures

U.S. Cellular s anticipated capital expenditures for 2006 primarily reflect plans for construction, system expansion and the continued buildout of certain of its licensed areas. U.S. Cellular plans to finance its construction program using internally generated cash and short-term financing. U.S. Cellular s estimated capital spending for 2006 is $580 million to $610 million. These expenditures 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.

TDS Telecom s estimated capital spending for 2006 is $125 million to $140 million. The incumbent local exchange companies are expected to spend $105 million to $120 million to provide for normal growth and to upgrade plant and equipment to provide enhanced services. The competitive local exchange companies are expected to spend approximately $20 million primarily to build switching and transmission facilities to meet the needs of a growing customer base. TDS Telecom plans to finance its construction program using primarily internally generated cash.

TDS Telecom currently has two fiber to the premises trials underway. The first is a complete fiber build-out of a subdivision in one of the incumbent local exchange carrier markets. The second is a combination fiber to the premises overbuild and asymmetric digital subscriber line deployment in one of the existing incumbent local exchange carrier markets. The capital spending guidance provided above includes the impact of these projects that relates to 2006.

Acquisitions, Exchanges and Divestitures

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

U.S. Cellular is a limited partner in Barat Wireless, L.P. (Barat Wireless), an entity which may participate in the auction of wireless spectrum designated by the FCC as Auction 66, which is scheduled to begin in August 2006. Barat Wireless intends to qualify as a designated entity and be eligible for discounts with respect to spectrum purchased in Auction 66.

Barat Wireless is in the process of developing its long-term business and financing plans. As of July 14, 2006, U.S. Cellular has made capital contributions and advances to Barat Wireless and/or its general partner of $79.9 million to provide initial funding of Barat Wireless participation in Auction 66. U.S. Cellular will consolidate Barat Wireless and Barat Wireless, Inc., the general partner of Barat Wireless, for financial reporting purposes, pursuant to the guidelines of FASB Interpretation No. 46R (FIN 46R), as U.S. Cellular anticipates absorbing a majority of Barat Wireless expected gains or losses. Pending finalization of Barat Wireless permanent financing plan, and upon request by Barat Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Barat Wireless and/or its general partner.

2005 Activity

U.S. Cellular owns approximately 14% of Midwest Wireless Communications, LLC, which holds FCC licenses and operates certain wireless markets in southern Minnesota. This interest is convertible into an interest of approximately 11% in Midwest Wireless Holdings, LLC, a privately-held wireless telecommunications company that controls Midwest Wireless Communications. Midwest Wireless Holdings, through other subsidiaries, also holds FCC licenses and operates certain wireless markets in northern and eastern Iowa and western Wisconsin.

On November 18, 2005, ALLTEL announced that it had entered into a definitive agreement to acquire Midwest Wireless Holdings for $1.075 billion in cash, subject to certain conditions, including approval by the FCC, other governmental authorities and the members of Midwest Wireless Holdings. U.S. Cellular received a letter dated December 15, 2005, from Midwest Wireless Holdings purporting to constitute notice pursuant to certain tag-along rights and drag-along rights under certain agreements relating to U.S. Cellular s interest in Midwest Wireless Communications.

By letter dated December 30, 2005, Midwest Wireless Holdings was advised on behalf of U.S. Cellular that U.S. Cellular was entitled to exercise certain rights of first refusal with respect to Midwest Wireless Holdings interest in Midwest Wireless Communications and demanded that Midwest Wireless Holdings take all steps to afford U.S. Cellular its rights of first refusal. On January 12, 2006, U.S. Cellular filed a lawsuit against Midwest Wireless Holdings and Midwest Wireless Communications seeking, among other things, to enforce such rights. On January 25, 2006, Midwest Wireless Holdings and Midwest Wireless Communications filed an answer denying U.S. Cellular s claims, alleging counterclaims of breach of contract and tortious interference with contractual relations and asking for declaratory relief and unspecified damages and costs. A trial on the merits of U.S. Cellular s claim to be entitled to first refusal rights was held from May 10-12, 2006. On June 7, 2006, the court denied U.S. Cellular s right of first refusal. As a result of the court's ruling the counterclaims have been rendered moot.

On January 31, 2006, U.S. Cellular also filed a petition to deny the FCC license transfer of control applications filed by ALLTEL and Midwest Wireless Holdings seeking FCC consent to their transaction. That petition is pending.

Although U.S. Cellular will not be afforded its rights of first refusal as a result of the foregoing court decision, U.S. Cellular will be entitled to receive approximately $102.7 million in cash in consideration with respect to its interest in Midwest Wireless Communications upon the closing of the acquisition of Midwest Wireless Holdings by ALLTEL. This closing is subject to FCC approval, antitrust review under the Hart Scott Rodino Act and other conditions.

In addition, U.S. Cellular owns 49% of an entity, accounted for under the equity method, which owns approximately 2.9% of Midwest Wireless Holdings. If the transaction with ALLTEL occurs, this entity will receive cash in consideration for its interest in Midwest Wireless Holdings. Following that, this entity will be dissolved and U.S. Cellular will be entitled to receive approximately $11.4 million in cash.

The net aggregate carrying value of U.S. Cellular s investments in Midwest Wireless Communications and Midwest Wireless Holdings was approximately $21.2 million at December 31, 2005.

On December 19, 2005, U.S. Cellular completed an exchange of certain wireless markets in Kansas, Nebraska and Idaho with a subsidiary of ALLTEL. Under the agreement, U.S. Cellular acquired fifteen Rural Service Area (RSA) markets in Kansas and Nebraska in exchange for two RSA markets in Idaho and $58.1 million in cash, including a preliminary working capital adjustment. U.S. Cellular also capitalized $2.6 million of acquisition-related costs. In connection with the exchange, U.S. Cellular recorded a pre-tax gain of $44.7 million in 2005, which is included in (Gain) loss on sales of assets in the Consolidated Statements of Operations. The gain represented the excess of the fair value of assets acquired and liabilities assumed over the sum of cash and net carrying value of assets and liabilities delivered in the exchange.

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 paid to the FCC for the 17 licenses was $129.9 million, net of all bidding credits to which Carroll Wireless was entitled as a designated entity. These 17 licensed areas cover portions of 12 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas.

On January 6, 2006, the FCC granted Carroll Wireless applications with respect to 16 of the 17 licenses for which it had been the successful bidder and dismissed one application, relating to Walla Walla, Washington. Following the completion of Auction 58, the FCC determined that a portion of the Walla Walla license was already licensed to another party and should not have been included in Auction 58. Accordingly in 2006, Carroll Wireless received a full refund of the $228,000 previously paid to the FCC with respect to the Walla Walla license.

Carroll Wireless is in the process of developing its long-term business and financing plans. As of December 31, 2005, U.S. Cellular has made capital contributions and advances to Carroll Wireless and/or its general partner of $129.9 million to fund the amount paid to the FCC; this amount is included in Licenses in the Consolidated Balance Sheets. 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 FIN 46R, as U.S. Cellular anticipates absorbing a majority of Carroll Wireless expected gains or losses. Pending finalization of Carroll Wireless permanent financing plan, and upon request by Carroll Wireless, U.S. Cellular may make additional capital contributions and advances to Carroll Wireless and/or its general partner. In November 2005, U.S. Cellular approved additional funding of up to $1.4 million of which $0.1 million was provided to Carroll Wireless through December 31, 2005.

In the first quarter of 2005, TDS adjusted the previously reported gain related to its sale to ALLTEL of certain wireless properties on November 30, 2004. The adjustment of the gain, which resulted from a working capital adjustment that was finalized in the first quarter of 2005, increased the total gain by $0.5 million to $51.4 million.

In addition, in 2005 U.S. Cellular purchased a controlling interest in one wireless market and certain minority interests in wireless markets in which it already owned a controlling interest for $6.9 million in cash. These acquisition costs were allocated among tangible assets, investments in licenses, goodwill and customer lists. TDS Telecom purchased a wireless license for $2.8 million in 2005.

In aggregate, the 2005 acquisitions, divestitures and exchanges increased licenses by $136.3 million, goodwill by $28.2 million and customer lists by $32.7 million.

2004 Activity

On December 20, 2004, U.S. Cellular completed the sale of its Daytona Beach Florida 20 megahertz C block personal communications service license to MetroPCS California/Florida, Inc. (MetroPCS) for $8.5 million. U.S. Cellular recorded impairment losses related to the Daytona license of $1.8 million in 2004 and $3.5 million in 2003 included in Gain (loss) on investments in the Consolidated Statements of Operations. Also included in Gain (loss) on investments in 2004 was $0.3 million associated with buying out the former partner of the Daytona investment.

On November 30, 2004, TDS and U.S. Cellular completed the sale to ALLTEL of certain wireless markets. TDS and U.S. Cellular subsidiaries sold three consolidated properties and six minority interests to ALLTEL for $142.9 million in cash, including repayment of debt and working capital that was subject to adjustment. TDS recorded a gain of $50.9 million related to the ALLTEL transaction representing the excess of the cash received over the net book value of the assets and liabilities sold. The portion of the gain related to the two consolidated markets of $10.1 million was recorded in (Gain) loss on assets held for sale in the Consolidated Statements of Operations. The remaining portion of the gains of $40.8 million was recorded in Gain (loss) on investments on the Consolidated Statements of Operations. TDS has included the results of operations of the markets sold to ALLTEL in the Consolidated Statements of Operations through November 30, 2004.

On February 18, 2004, U.S. Cellular completed the sale of certain of its wireless properties in southern Texas to AT&T Wireless for $96.5 million in cash, including a working capital adjustment. The U.S. Cellular properties sold to AT&T Wireless included wireless assets and customers in six markets. An aggregate loss of $21.3 million (including a $22.0 million estimate of the loss on sales of assets in the fourth quarter of 2003 and a $0.7 million reduction of the loss in 2004) was recorded in (Gain) loss on sales of assets in the Consolidated Statements of Operations, representing the difference between the carrying value of the markets sold to AT&T Wireless and the cash received in the transaction. On December 31, 2003, U.S. Cellular reflected the assets and liabilities to be transferred to AT&T Wireless as assets and liabilities held for sale in accordance with SFAS No. 144. U.S. Cellular has included the results of operations of the markets sold to AT&T Wireless in the Consolidated Statements of Operations through February 17, 2004.

In addition, in 2004 U.S. Cellular purchased certain minority interests in several wireless markets in which it already owned a controlling interest for $40.8 million in cash and $2.0 million to be paid in 2005. These acquisitions increased Licenses by $5.6 million, Goodwill by $4.2 million and Customer lists by $12.9 million.

In aggregate, the 2004 divestitures and exchanges decreased Licenses by $2.8 million and Goodwill by $34.9 million and increased Customer lists by $12.9 million.

2003 Activity

During 2003, U.S. Cellular completed an exchange with AT&T Wireless along with the acquisition of two minority interests.

On August 1, 2003, U.S. Cellular completed the transfer of properties to AT&T Wireless and the assignments to it by AT&T Wireless of a portion of the licenses covered by the agreement with AT&T Wireless. On the initial closing date, U.S. Cellular also received approximately $34.0 million in cash and minority interests in six markets in which it currently owns a controlling interest. Also on the initial closing date, U.S. Cellular transferred wireless assets and customers in 10 markets in Florida and Georgia to AT&T Wireless. The assignment and development of certain licenses has been deferred by U.S. Cellular for a period of up to five years from the closing date, in accordance with the agreement. U.S. Cellular will take possession of the licenses in staggered closings over that five-year period to comply with service requirements of the Federal Communications Commission. The acquisition of the licenses in the exchange was accounted for as a purchase by U.S. Cellular and the transfer of the properties by U.S. Cellular to AT&T Wireless was accounted for as a sale. TDS capitalized $2.8 million of costs associated with the AT&T Wireless transaction.

The 15 licenses that have been transferred to U.S. Cellular as of December 31, 2003, with a recorded value of $136.6 million, along with the 21 licenses that have not yet been assigned to U.S. Cellular, with a recorded value of $42.0 million, are included in Licenses on the Consolidated Balance Sheets. TDS has included the results of operations in the Florida and Georgia markets in the Consolidated Statements of Operations until the date of the transfer, August 1, 2003.

Prior to the close of the AT&T Wireless exchange, U.S. Cellular allocated $70.0 million of goodwill related to the properties transferred to AT&T Wireless to assets of operations held for sale in accordance with SFAS No. 142. A loss of $23.9 million was recorded as a (Gain) loss on sales of assets (included in Operating Expenses)representing the difference between the book value of the markets transferred to AT&T Wireless and the fair value of the assets received or to be received in this transaction.

In addition, in 2003, U.S. Cellular acquired the minority interest in two entities which held wireless licenses for $2.3 million.

In aggregate, the 2003 acquisitions, divestitures and exchanges increased Licenses by $101.7 million and reduced U.S. Cellular goodwill by $62.4 million.

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. As of December 31, 2005, shares remaining available for repurchase under this authorization totaled 824,300. In 2004, TDS repurchased 214,800 Common Shares under this authorization for an aggregate purchase price of $14.9 million, representing an average per share price of $69.15 including commissions. In 2003, TDS repurchased 1,961,000 Common Shares under this authorization for an aggregate purchase price of $92.4 million, representing an average per share price of $47.10, including commissions. TDS does not currently have Board of Director authorization to repurchase Common or Special Common Shares.

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 2005 or 2003. In 2004, U.S. Cellular repurchased 91,700 U.S. Cellular Common Shares under this authorization for an aggregate purchase price of $3.9 million, representing an average per share price of $42.62 including commissions.

TDS paid total dividends on its Common Stock and Preferred Shares of $40.6 million in 2005, $38.0 million in 2004 and $36.2 million in 2003. In February 2006, the TDS Board of Directors (the TDS Board) declared a $0.0925 dividend per Common, Special Common and Series A Common Share for the first quarter of 2006. TDS has no current plans to change its policy of paying dividends.

Stock Dividend

On February 17, 2005, the TDS Board unanimously approved a proposal (the Special Common Share Proposal), to be submitted to TDS shareholders at a special meeting of shareholders on April 11, 2005, to approve 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.

On April 11, 2005, shareholders of TDS approved the increase in the authorized number of TDS Special Common Shares. As a result, and following the satisfaction of other conditions, the distribution of TDS Special Common Shares became effective on May 13, 2005 to shareholders of record on April 29, 2005. In the distribution, one TDS Special Common Share was distributed in the form of a stock dividend with respect to each TDS Common Share and TDS Series A Common Share issued on April 29, 2005.

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 81.3% 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

As of December 31, 2005, the resources required for scheduled repayment of contractual obligations were as follows:

	Payments due by Period				
	Total	**Less than 1 Year**	**2 3 Years**	**4 5 Years**	**More than 5 Years**
(Dollars in millions)					
Long-term debt obligations (1)	$ 1,871.5	$ 238.0	$ 5.8	$ 16.6	$ 1,611.1
Long-term debt interest	3,713.0	128.3	239.4	237.7	3,107.6
Forward contract obligations (2)	1,754.1		1,754.1		
Forward contract interest (3)	130.2	65.2	65.0		
Operating leases (4)	657.1	110.0	171.2	108.5	267.4
Purchase obligations (5)(6)	325.6	147.1	81.1	38.5	58.9
	$ 8,451.5	$ 688.6	$ 2,316.6	$ 401.3	$ 5,045.0

(1) Scheduled debt repayments include long-term debt and the current portion of long-term debt. See Note 14 Long-term Debt.

(2) Scheduled forward contract repayments include interest (unamortized discount) that has been or will be accreted up to the maturity date. See Note 14 Long-term Debt.

(3) Interest amounts shown are for variable rate forward contracts based on the December 31, 2005 LIBOR rate plus 50 basis points. The three month LIBOR rate was 4.54% at December 31, 2005.

(4) Represents the amounts due under noncancellable, long-term operating leases for the periods specified. See Note 21 Commitments and Contingencies. TDS has no material capital leases.

(5) Includes obligations due under equipment vendor contracts, representing a portion of U.S. Cellular s estimated 2006 capital expenditures of $580 million to $610 million. See Capital Expenditures for further discussion. Also includes amounts payable under other agreements to purchase goods or services, including open purchase orders.

(6) Includes $5.3 million for other post-retirement benefits expected to be paid in 2006. No amounts for other post-retirement benefits are included in periods beyond 2006 as these amounts are discretionary and have not yet been determined.

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 $215.4 million as of December 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 December 31, 2005, TDS has recorded liabilities of $4.3 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.

The preparation of financial statements in accordance with U.S. GAAP requires management 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. Management 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.

Management believes the following reflect its more significant accounting policies and estimates used in the preparation of its consolidated financial statements. TDS s senior management has discussed the development of each of the following accounting policies and estimates and the following disclosures with the audit committee of the TDS board of directors.

Licenses and Goodwill

TDS reported $1,365.1 million of licenses and $869.8 million of goodwill at December 31, 2005, as a result of the acquisition of wireless licenses and markets, and the acquisition of operating telephone companies. Licenses include those won by Carroll Wireless in the FCC auction completed in February 2005 and license rights related to licenses that will be received when the 2003 AT&T Wireless exchange transaction is fully completed.

See Note 5 Licenses and Goodwill for a schedule of license and goodwill activity in 2005 and 2004.

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 of its fiscal year. 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. For purposes of 2005 goodwill impairment testing, U.S. Cellular 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 (EITF) 02-7, Unit 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. Prior to the divestitures of markets in late 2004 there were six reporting units for the purposes of testing goodwill and FCC licenses for impairment.

U.S. Cellular prepared valuations of each of the reporting units for purposes of goodwill impairment testing. A discounted cash flow approach was 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 were the selection of a discount rate, estimated future cash flow levels, projected capital expenditures and selection of terminal value multiples.

U.S. Cellular also prepared 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.

In response to petitions filed by a Regional Bell Operating Company for increases in rates for certain wholesale services that it provides to competitive local exchange carriers, the state public service commissions of Illinois, Wisconsin and Michigan have issued orders that adversely affect the cost of providing some services for TDS Telecom s competitive local exchange carrier operations in those states, primarily services to residential customers and certain small business customers. The pricing data for the major markets of the competitive local exchange carrier became available in the fourth quarter of 2004. These pricing changes, as well as other regulatory changes and competitive pressures in 2004, triggered an impairment review by TDS Telecom of its competitive local exchange carrier operations tangible and intangible assets. As a result of the impairment review, TDS Telecom concluded that goodwill associated with the competitive local exchange carrier operations was impaired and recorded a loss on impairment of intangible assets of $29.4 million in the Consolidated Statements of Operations in 2004.

TDS Telecom s carrying value for the competitive local exchange carrier operations exceeded the fair value of such operations in 2004, thus requiring the second step of the goodwill test. Pursuant to the second step of the goodwill test, TDS Telecom allocated the fair value of the competitive local exchange carrier operations to all of the assets, including unrecognized intangible assets (e.g., the value of the customer list and trade names), and liabilities of such operations. As a result of this allocation, there was no implied goodwill. Therefore, the carrying amount of goodwill was charged to expense in 2004.

The U.S. Cellular annual impairment tests for investments in licenses and goodwill were performed in the second quarter of 2005, 2004 and 2003. There was no impairment loss as a result of the 2005 impairment testing. In 2004 and 2003, U.S. Cellular recorded $1.8 million and $3.5 million, respectively, of license impairment losses related to the investment in a non-operating market in Florida, which was sold in December 2004 for $8.5 million, its approximate book value. These losses were recorded on Loss on investments in the Consolidated Statements of Operations. No other impairment losses were identified during the annual impairment testing in the second quarter of 2004. In 2003, in addition to the loss described above, U.S. Cellular recorded an impairment loss on its licenses totaling $49.6 million related to the impairment of two reporting units (this loss was recorded in Loss impairment of intangible assets in the Consolidated Statements of Operations) and reduced the carrying value of one of its cost method investments by $1.7 million based on a cash flow analysis of the investment (this loss was recorded in Loss on investments in the Consolidated Statement of Operations).

There was no impairment of goodwill assigned to TDS Telecom s incumbent local exchange carrier operations in 2005, 2004 and 2003. The carrying value of a wireless investment held by TDS Telecom exceeded the estimated fair value by approximately $5.0 million, and TDS Telecom recorded an impairment loss on goodwill in this reporting unit by that amount in 2003.

Asset Retirement Obligations

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

U.S. Cellular is subject to asset retirement obligations associated primarily with its cell sites, retail sites and office locations. Asset retirement obligations generally include costs to remediate leased land on which U.S. Cellular s cell sites and switching offices are located. U.S. Cellular is also generally required to return leased retail store premises and office space to their pre-existing conditions. The asset retirement obligation is included in Other deferred liabilities and credits on the Consolidated Balance Sheets.

During the second quarter of 2005, U.S. Cellular reviewed the assumptions related to its asset retirement obligations and made certain changes to those assumptions as a result. Such changes did not have a material impact on U.S. Cellular s financial condition or results of operations.

The change in U.S. Cellular s asset retirement obligations during 2005 and 2004 was as follows:

Year Ended December 31,	**2005**	**2004**
	(Dollars in thousands)	
Beginning balance	$ 72,575	$ 64,540
Additional liabilities accrued	7,920	5,426
Acquisition of assets	5,461	
Disposition of assets	(2,032)	(2,065)
Accretion expense	6,300	4,674
Ending balance	$ 90,224	$ 72,575

TDS Telecom s incumbent local exchange carriers rates are regulated by the respective state public utility commissions and the FCC and therefore, TDS Telecom reflects the effects of the rate-making actions of these regulatory bodies in the financial statements of the incumbent local exchange carriers. The incumbent local exchange carriers have recorded an asset retirement obligation in accordance with the requirements of SFAS No. 143 and FIN 47 and a regulatory liability for the costs of removal that these state public utility commissions have required to be recorded for regulatory accounting purposes which are, in most cases, in excess of the amounts required to be recorded in accordance with SFAS No. 143. These amounts combined make up the asset retirement obligation for the incumbent local exchange carriers.

The change in TDS Telecom s incumbent local exchange carriers asset retirement obligation and regulatory obligation during 2005 and 2004 was as follows:

Year Ended December 31,	**2005**	**2004**
	(Dollars in thousands)	
Beginning balance	$ 65,000	$ 60,000
Additional liabilities incurred	6,000	6,057
Costs of removal	(780)	(1,057)
Ending balance	$ 70,220	$ 65,000

The regulatory liability included in TDS Telecom s incumbent local exchange carriers asset retirement obligation at December 31, 2005 and 2004 was $33.7 million and $31.1 million, respectively. The asset retirement obligation calculated in accordance with the provisions of SFAS No. 143 at December 31, 2005 and 2004 was $36.5 million and $33.9 million, respectively.

FIN 47 was issued in March 2005 and became effective for TDS beginning December 31, 2005. This Interpretation clarified that the term conditional asset retirement obligation as used in SFAS No. 143 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. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. In accordance with FIN 47, TDS recorded an asset retirement obligation in the fourth quarter of 2005 of $2.6 million and an increase in gross fixed assets of $1.8 million for TDS Telecom s competitive local exchange carrier. The pre-tax effect on the Consolidated Statements of Operations was $1.4 million.

TDS Telecom s competitive local exchange carriers asset retirement obligation during 2005 was as follows:

Year Ended December 31,	**2005** **(Dollars in thousands)**
Beginning balance	$
Additional liabilities incurred	2,649
Costs of removal	
Ending balance	$ 2,649

Property, Plant and Equipment

U.S. Cellular and TDS Telecom s competitive local exchange carrier operations each provide for depreciation using the straight-line method over the estimated useful lives of the assets. U.S. Cellular depreciates its leasehold improvement assets associated with leased properties over periods ranging from three to ten years, which approximates the shorter of the assets economic lives or the specific lease terms, as defined in SFAS No. 13, Accounting for Leases, as amended. 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 its 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 and TDS Telecom did not materially change the useful lives of their property, plant and equipment in the year ended December 31, 2005.

In 2005 and 2004, certain U.S. Cellular Time Division Multiple Access (TDMA) digital radio equipment consigned to a third party for future sale was taken out of service and was written down by $2.7 million and $17.2 million, respectively, prior to its consignment, increasing depreciation expense by that amount. This write-down was necessary to reduce the book value of the assets sold or to be sold to the proceeds received or expected to be received from their disposition.

In 2004, in preparation for the implementation of a fixed asset management and tracking system, including a bar code asset identification feature, U.S. Cellular conducted a physical inventory of its cell site fixed assets. As a result of the physical inventory and related reconciliation, U.S. Cellular charged $1.0 million and $11.9 million to depreciation expense in 2005 and 2004, respectively, for the write-off of certain assets.

During 2004, U.S. Cellular adjusted the useful lives of TDMA radio equipment, switch software and antenna equipment. TDMA radio equipment lives were adjusted so that the assets will be fully depreciated by the end of 2008, which is the latest date the wireless industry will be required by law 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 Code Division Multiple Access (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 to seven years from eight years in order to better align the useful lives with the actual length of time the assets are expected to be in use. These changes increased depreciation expense by $14.9 million in 2004. The changes in useful lives reduced net income by $9.0 million, or $0.10 per share in 2004.

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.

TDS Telecom s competitive local exchange carrier has two asset groups for purposes of impairment testing; the larger asset group was valued using a market approach and the smaller asset group was valued using an 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 are the selection of a discount rate, estimated future cash flow levels, projected capital expenditures and determination of terminal value.

As discussed previously under the Licenses and Goodwill caption under Application of Critical Accounting Policies and Estimates, regulatory changes and competitive pressures in 2004 triggered an impairment review by TDS Telecom of its competitive local exchange carrier operations tangible assets. As a result of the impairment review, TDS Telecom concluded that the long-lived tangible assets of its competitive local exchange carrier operations were impaired and recorded a loss on impairment of tangible assets of $87.9 million in the Consolidated Statements of Operations.

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 calculating the current income tax liability together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes, such as depreciation expense, as well as estimating the impact of potential adjustments to filed tax returns. 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 realized based on future taxable income and to the extent management believes that realization is not likely, establish a valuation allowance. 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 assets totaled $13.4 million and $43.9 million as of December 31, 2005 and 2004, respectively. The net current deferred tax asset at 2005 primarily represents the deferred tax effects of the allowance for doubtful accounts on customer receivables. In 2004, the net current deferred tax asset primarily represented the deferred tax effects of federal net operating loss (NOL) carryforwards that were utilized in 2005 and the allowance for doubtful accounts on customer receivables.

TDS s noncurrent deferred tax assets and liabilities at December 31, 2005 and 2004 and the temporary differences that gave rise to them as follows:

December 31,	**2005**	**2004**
	(Dollars in thousands)	
Deferred Tax Asset		
Net operating loss carryforwards	$ 71,981	$ 61,977
Derivative instruments	185,707	487,216
Other	37,127	38,815
	294,815	588,008
Less valuation allowance	(64,374)	(55,305)
Total Deferred Tax Asset	230,441	532,703
Deferred Tax Liability		
Marketable equity securities	910,723	1,284,872
Property, plant and equipment	367,785	428,355
Partnership investments	61,589	66,432
Licenses	273,375	241,699
Total Deferred Tax Liability	1,613,472	2,021,358
Net Deferred Income Tax Liability	$ 1,383,031	$ 1,488,655

The deferred income tax liability relating to marketable equity securities totaled $910.7 million and $1,284.9 million, as of December 31, 2005 and 2004, respectively. These amounts represent deferred income taxes calculated on the difference between the fair value and the tax basis of the marketable equity securities. Income taxes will be payable when TDS disposes of the marketable equity securities.

At December 31, 2005, TDS and certain subsidiaries had $1,282 million of state NOL carryforwards (generating an $67.3 million deferred tax asset) available to offset future taxable income primarily of the individual subsidiaries which generated the losses. The state NOL carryforwards expire between 2006 and 2025. Certain subsidiaries that are not included in the federal consolidated income tax return, but file separate federal tax returns, had federal NOL carryforwards (generating a $4.6 million deferred tax asset) available to offset future taxable income. The federal NOL carryforwards expire between 2006 and 2025. A valuation allowance was established for certain state NOL carryforwards and the federal NOL carryforwards since it is more than likely that a portion of such carryforwards will expire before they can be utilized.

TDS is routinely subject to examination of its income tax returns by the Internal Revenue Service 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 June of 2006, the Internal Revenue Service commenced its audit of the 2002-2004 consolidated federal tax returns of TDS and subsidiaries. The audit is in its preliminary stages.

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 incurred, even if the amount is

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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.

In April 2006, an interexchange carrier for which TDS Telecom provides both originating and terminating access asserted a claim for refund, net of counterclaims, of up to $10 million for past billed amounts for certain types of traffic. TDS Telecom believes its billing methods and procedures were appropriate under the terms of its state and federal tariffs and will contest this claim.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following persons are partners of Sidley Austin 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 nonexecutive chairman of the board and member of the board of directors of TDS and a director of U.S. Cellular; 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 Annual 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, but are not limited to, the following risks:

- *Intense competition in the markets in which TDS operates could adversely affect TDS s revenues or increase its costs to compete.*

- *Consolidation in the telecommunications industry could adversely affect TDS s revenues and increase its costs of doing business.*

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

- *Changes in the regulatory environment or a failure by TDS to timely or fully comply with any regulatory requirements could adversely affect TDS s financial condition, results of operations or ability to do business.*

- *Changes in TDS s enterprise value, changes in the supply or demand of the market for wireless licenses or telephone company franchises, adverse developments in the business or the industry 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, issuances of debt, changes in prepaid forward contracts, changes in operating leases, changes in purchase obligations or other factors or developments could cause the amounts reported under Contractual Obligations in TDS s Management s Discussion and Analysis of Financial Condition and Results of Operations 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 TDS s Application of Critical Accounting Policies and Estimates, could have an adverse effect on TDS s financial condition or 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 and/or expansion of TDS s business could have an adverse effect on TDS s business, financial condition or results of operations.*

- *Changes in various business factors could have an adverse effect on TDS s business, financial condition or results of operations.*

- *A significant portion of TDS s wireless revenues is derived from customers who buy services through independent agents and dealers who market TDS s services on a commission basis. If TDS s relationships with these agents and dealers are seriously harmed, its wireless revenues could be adversely affected.*

- *TDS s investments in technologies which are unproven or for which success has not yet been demonstrated may not produce the benefits that TDS expects.*

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- *An inability to obtain or maintain roaming arrangements with other carriers on terms that are acceptable to TDS, and/or changes in roaming rates and the lack of standards and roaming agreements for wireless data products, could have an adverse effect on TDS s business, financial condition or results of operations.*

- *Changes in access to content for data or video services and access to new handsets being developed by vendors, or an inability to manage its supply chain or inventory successfully, could have an adverse effect on TDS s business, financial condition or results of operations.*

- *A failure by TDS s service offerings to meet customer expectations could limit TDS s ability to attract and retain customers and have an adverse effect on TDS s operations.*

- *A failure by TDS to complete significant network build-out and system implementation as part of its plans to build out new markets and improve the quality and capacity of its network could have an adverse effect on its operations.*

- *A failure by TDS s wireless business to acquire adequate radio spectrum could have an adverse effect on TDS s business and operations.*

- *Financial difficulties of TDS s key suppliers or vendors, or termination or impairment of TDS s relationship with such suppliers or vendors, could result in a delay or termination of TDS s receipt of equipment or services, which could adversely affect TDS s business and results of operations.*

- *An increase of TDS s debt in the future could subject TDS to various restrictions and higher interest costs and decrease its cash flows and earnings.*

- *An inability to attract and/or retain management, technical, sales and other personnel could have an adverse effect on TDS s business, financial condition or results of operations.*

- *TDS has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on TDS s results of operations or financial condition.*

- *Changes in guidance or interpretations of accounting requirements, changes in industry practice, identification of errors or changes in management assumptions could require amendments to or restatements of financial information or disclosures 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, laws, regulations or rulings, or federal or state tax assessments could have an adverse effect on TDS s financial condition or results of operations.*

- *War, conflicts, hostilities and/or terrorist attacks or equipment failure, power outages, natural disasters or breaches of network or information technology security could have an adverse effect on TDS s business, financial condition or results of operations.*

- *Changes in general economic and business conditions, both nationally and in the markets in which TDS operates could have an adverse effect on TDS s business, financial condition or results of operations.*

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

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- *Material weaknesses in the effectiveness of internal control over financial reporting could result in inaccurate financial statements or other disclosures or fail to prevent fraud, which could have an adverse effect on TDS s business, financial condition or results of operations.*

- *The pending SEC investigation regarding the restatement of TDS s financial statements could result in substantial expenses, and could result in monetary or other penalties.*

- *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, financial condition or results of operations.*

- *TDS s assets are concentrated in the U.S. telecommunications industry. As a result, its results of operations may fluctuate based on factors related entirely to conditions in this industry.*

- *As TDS continues to implement its strategies, there are internal and external factors that could impact its ability to successfully meet its objectives.*

- *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 by a material amount.*

- *The market price of TDS s Common Shares and Special Common Shares is subject to fluctuations due to a variety of factors.*

- *Certain matters, such as control by the TDS Voting Trust and provisions in the TDS Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of TDS.*

You are referred to a further discussion of these risks as set forth under Risk Factors in TDS s Annual Report on Form 10-K for the year ended December 31, 2005. 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.

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 December 31, 2005, TDS had not entered into any significant financial derivatives to reduce its exposure to interest rate risks.

The following table presents the scheduled principal payments on long-tem debt and forward contracts and the related weighted-average interest rates by maturity dates at December 31, 2005:

	Principal Payments Due by Period			
	Long-Term Debt Obligations (1) (Dollars in millions)	Weighted-Avg. Interest Rates on Long-Term Debt Obligations (2)	Forward Contracts (3)	Weighted-Avg. Interest Rates on Forward Contracts (4)
2006	$ 238.0	7.4 %	$	%
2007	2.8	4.3 %	738.7	4.9 %
2008	3.0	4.4 %	1,015.4	4.6 %
2009	13.6	7.9 %		%
2010	3.0	4.6 %		%
After 5 Years	1,611.1	7.3 %		%
Total	$ 1,871.5	7.3 %	$ 1,754.1	4.7 %

(1) Scheduled principal repayments include long-term debt and current portion of long-term debt.

(2) Represents the weighted-average interest rates at December 31, 2005, for debt maturing in the respective periods.

(3) Scheduled forward contract repayments include interest (unamortized discount) that has been or will be accreted up to the maturity date.

(4) Some of the forward contracts have a fixed interest rate, while others have a variable rate based on the LIBOR rate plus 50 basis points. The three-month LIBOR rate at December 31, 2005, was 4.54%.

At December 31, 2005 and 2004, the estimated fair value of long- term debt obligations was $1,883.9 million and $2,122.6 million, respectively, and the average interest rate on this debt was 7.3% and 7.2%, respectively. The fair value of long-term debt was estimated using market prices for TDS s 7.6% Series A Notes, 6.625% senior notes, and 7% senior notes and U.S. Cellular s 8.75% senior notes, 7.5% senior notes, 6.7% senior notes, and discounted cash flow analysis for the remaining debt.

At December 31, 2005 and 2004, the estimated fair value of the forward contracts was $1,697.6 million and $1,691.1 million, respectively, and the average interest rate on this debt was 4.7% and 3.2%, respectively. The fair value of variable rate forward contracts, aggregating $1,295.3 million at December 31, 2005, approximates the carrying value due to the frequent repricing of these instruments. These contracts require quarterly interest payments at the LIBOR rate plus 50 basis points (the three-month LIBOR rate was 4.54% at December 31, 2005). The fair value of the fixed rate forward contracts, aggregating $402.3 million at December 31, 2005, was estimated based upon a discounted cash flow analysis. These contracts are structured as zero coupon obligations with a weighted average effective interest rate of 4.4% per year.

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 $2,531.7 million at December 31, 2005, and $3,398.8 million at December 31, 2004. As of December 31, 2005, the unrealized holding gain, net of tax included in accumulated other comprehensive income totaled $593.2 million. This amount was $1,109.2 million at December 31, 2004.

Subsidiaries of TDS and U.S. Cellular have entered into a number of forward contracts with counterparties related to the marketable equity securities that they hold. TDS and U.S. Cellular have provided guarantees to the counterparties which provide assurance that all principal and interest amounts are paid upon settlement of the contracts by such subsidiaries. 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

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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, subsidiaries of TDS and U.S. Cellular will continue to own the contracted shares and will receive dividends paid on such contracted shares, if any. The forward contracts 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.

Deferred taxes have been provided for the difference between the fair value and the income tax basis of the marketable equity securities and derivatives, and are included in deferred tax liabilities on the Balance Sheet. Such deferred tax liabilities related to marketable equity securities totaled $910.7 million at December 31, 2005 and $1,284.9 million at December 31, 2004. Such deferred tax assets related to derivatives totaled $185.7 million at December 31, 2005 and $487.2 million at December 31, 2004.

The following table summarizes certain facts surrounding the contracted securities as of December 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	$18.76-$21.44	201,038
Deutsche Telekom	131,461,861	$10.74-$12.41	$13.68-$16.37	1,532,257
				1,754,114
Unamortized debt discount				46,832
				$ 1,707,282

(1) The per-share amounts represent the range of floor and ceiling prices of all the 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 December 31, 2005 and December 31, 2004, 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.

(Dollars in millions)

December 31, 2005	**Valuation of investments assuming indicated increase**			
	Fair Value	**+10%**	**+20%**	**+30%**
Marketable Equity Securities	$ 2,531.7	$ 2,784.9	$ 3,038.0	$ 3,291.2
Derivative Instruments (1)	$ (449.2)	$ (661.3)	$ (895.9)	$ (1,133.9)

December 31, 2005	**Valuation of investments assuming indicated decrease**			
	Fair Value	-10%	-20%	-30%
Marketable Equity Securities	$ 2,531.7	$ 2,278.5	$ 2,025.4	$ 1,772.2
Derivative Instruments (1)	$ (449.2)	$ (274.4)	$ (63.5)	$ 108.3

December 31, 2004	**Valuation of investments assuming indicated increase**			
	Fair Value	**+10%**	**+20%**	**+30%**
Marketable Equity Securities	$ 3,398.8	$ 3,738.7	$ 4,078.6	$ 4,418.4
Derivative Instruments (1)	$ (1,210.5)	$ (1,544.8)	$ (1,873.5)	$ (2,206.5)

December 31, 2004	**Valuation of investments assuming indicated decrease**			
	Fair Value	-10%	-20%	-30%
Marketable Equity Securities	$ 3,398.8	$ 3,058.9	$ 2,719.0	$ 2,379.2
Derivative Instruments (1)	$ (1,210.5)	$ (908.7)	$ (608.8)	$ (325.8)

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

Telephone and Data Systems, Inc. and Subsidiaries

Consolidated Statements of Operations

Year Ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands, except per share amounts)		
Operating Revenues	$ 3,960,069	$ 3,703,920	$ 3,455,174
Operating Expenses			
Cost of services and products (exclusive of depreciation, amortization and accretion shown separately below)	1,420,315	1,323,928	1,200,978
Selling, general and administrative expense	1,508,964	1,380,718	1,293,853
Depreciation, amortization and accretion expense	677,443	670,731	598,336
Loss on impairment of intangible assets		29,440	49,595
Loss on impairment of long-lived assets		87,910	4,914
(Gain) loss on sales of assets	(44,660)	(10,806)	45,908
Total Operating Expenses	3,562,062	3,481,921	3,193,584
Operating Income	398,007	221,999	261,590
Investment and Other Income (Expense)			
Investment income	69,753	64,900	52,179
Interest and dividend income	158,199	28,803	20,140
Gain (loss) on investments	(4,900)	38,209	(10,200)
Interest expense	(216,021)	(198,706)	(171,391)
Minority interest in income of subsidiary trust			(16,678)
Other income (expense), net	(8,899)	(6,592)	(13,880)
Total Investment and Other Income (Expense)	(1,868)	(73,386)	(139,830)
Income From Continuing Operations Before Income Taxes and Minority Interest	396,139	148,613	121,760
Income tax expense	140,572	59,251	58,262
Income From Continuing Operations Before Minority Interest	255,567	89,362	63,498
Minority share of income	(34,020)	(28,872)	(17,979)
Income From Continuing Operations	221,547	60,490	45,519
Discontinued operations, net of tax	997	6,362	(1,609)
Income Before Cumulative Effect of Accounting Change	222,544	66,852	43,910
Cumulative effect of accounting change, net of tax and minority interest			(11,789)
Net Income	222,544	66,852	32,121
Preferred dividend requirement	(202)	(203)	(417)
Net Income Available to Common	$ 222,342	$ 66,649	$ 31,704
Basic Weighted Average Shares Outstanding (000s)	115,296	114,592	115,442
Basic Earnings per Share			
Income from Continuing Operations	$ 1.92	$ 0.53	$ 0.38
Discontinued Operations	0.01	0.05	(0.01)
Cumulative Effect of Accounting Change			(0.10)
Net Income Available to Common	$ 1.93	$ 0.58	$ 0.27
Diluted Weighted Average Shares Outstanding (000s)	116,081	115,134	115,750
Diluted Earnings per Share			
Income from Continuing Operations	$ 1.90	$ 0.52	$ 0.38
Discontinued Operations	0.01	0.05	(0.01)
Cumulative Effect of Accounting Change			(0.10)
Net Income Available to Common	$ 1.91	$ 0.57	$ 0.27
Dividends per Share	$ 0.35	$ 0.33	$ 0.31

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

Year Ended December 31,	2005	2004	2003
	(Dollars in thousands)		
Cash Flows from Operating Activities			
Net income	$ 222,544	$ 66,852	$ 32,121
Add (deduct) adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization and accretion	677,443	670,731	598,336
Bad debts expense	46,427	56,372	62,353
Deferred income taxes, net	(24,313)	44,706	9,078
Investment income	(69,753)	(64,900)	(52,179)
Distributions from unconsolidated entities	53,036	49,234	45,427
Minority share of income	34,020	28,872	17,979
Loss on impairment of intangible assets		29,440	49,595
Loss on impairment of long-lived assets		87,910	4,914
(Gain) loss on sales of assets	(44,660)	(10,806)	45,908
(Gain) loss on investments	4,900	(38,209)	10,200
Discontinued operations	(997)	(6,362)	1,609
Cumulative effect of accounting change			11,789
Noncash interest expense	20,365	24,764	26,760
Other noncash expense	16,935	16,793	33,621
Accreted interest on repayment of U.S. Cellular long-term debt		(68,056)	
Changes in assets and liabilities from operations			
Change in accounts receivable	(97,296)	(92,110)	(634)
Change in materials and supplies	(15,460)	(6,006)	(16,548)
Change in accounts payable	34,940	(19,927)	(1,571)
Change in customer deposits and deferred revenues	3,394	11,362	17,665
Change in accrued taxes	2,955	30,822	59,958
Change in other assets and liabilities	15,743	(14,040)	14,575
	880,223	797,442	970,956
Cash Flows from Investing Activities			
Additions to property, plant and equipment	(720,557)	(806,769)	(776,037)
Acquisitions, divestitures and exchanges	(190,870)	197,779	28,828
Other investing activities	(3,001)	(5,590)	3,166
	(914,428)	(614,580)	(744,043)
Cash Flows from Financing Activities			
Issuance of notes payable	510,000	420,000	279,278
Issuance of long-term debt	113,139	422,642	434,294
Repayment of notes payable	(405,000)	(390,000)	(739,278)
Repayment of Company-Obligated Mandatorily Redeemable Preferred Securities			(300,000)
Repayment of long-term debt	(242,168)	(376,397)	(60,370)
Redemption of medium-term notes	(17,200)		(70,500)
Stock options exercised	43,572	31,938	10,723
Repurchase of TDS Common Shares		(20,440)	(86,779)
Repurchase of U.S. Cellular Common Shares		(3,908)	
Dividends paid	(40,576)	(38,047)	(36,193)
Other financing activities	(2,876)	1,877	(19,109)
	(41,109)	47,665	(587,934)
Net Increase (Decrease) in Cash and Cash Equivalents	(75,314)	230,527	(361,021)
Cash and Cash Equivalents			
Beginning of year	1,171,105	940,578	1,301,599
End of year	$ 1,095,791	$ 1,171,105	$ 940,578

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

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Telephone and Data Systems, Inc. and Subsidiaries
Consolidated Balance Sheets Assets

	December 31, 2005 (Dollars in thousands)	2004
Current Assets		
Cash and cash equivalents	$ 1,095,791	$ 1,171,105
Accounts receivable		
Due from customers, less allowance of $15,200 and $14,317, respectively	336,005	304,851
Other, principally connecting companies, less allowance of $5,620 and $3,170, respectively	160,577	134,458
Materials and supplies	103,211	91,556
Prepaid expenses	40,704	44,271
Deferred income tax asset	13,438	43,867
Other current assets	29,243	27,606
	1,778,969	1,817,714
Investments		
Marketable equity securities	2,531,690	3,398,804
Licenses	1,365,063	1,228,801
Goodwill	869,792	843,387
Customer lists, net of accumulated amortization of $42,947 and $34,630, respectively	49,318	24,915
Investments in unconsolidated entities	215,424	199,518
Notes receivable, less valuation allowance of $55,144 and $55,144, respectively	8,084	4,885
Other investments	4,190	18,154
	5,043,561	5,718,464
Property, Plant and Equipment, net		
In service and under construction	7,140,447	6,540,149
Less accumulated depreciation	3,614,242	3,120,705
	3,526,205	3,419,444
Other Assets and Deferred Charges	55,830	56,981
	$ 10,404,565	$ 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

	December 31, 2005 (Dollars in thousands)	2004
Current Liabilities		
Current portion of long-term debt	$ 237,948	$ 38,787
Notes payable	135,000	30,000
Accounts payable	357,273	327,497
Customer deposits and deferred revenues	121,228	119,196
Accrued interest	28,946	27,936
Accrued taxes	47,180	63,184
Accrued compensation	67,443	71,707
Other current liabilities	61,086	51,164
	1,056,104	729,471
Deferred Liabilities and Credits		
Net deferred income tax liability	1,383,031	1,488,655
Derivative liability	449,192	1,210,500
Asset retirement obligation	163,093	137,575
Other deferred liabilities and credits	104,984	82,631
	2,100,300	2,919,361
Long-Term Debt		
Long-term debt, excluding current portion	1,633,519	1,974,599
Forward contracts	1,707,282	1,689,644
	3,340,801	3,664,243
Commitment and Contingencies (Note 21)		
Minority Interest in Subsidiaries	552,884	499,468
Preferred Shares	3,863	3,864
Common Stockholders Equity (Note 18)		
Common Shares, par value $.01 per share; authorized 100,000,000 shares; issued 56,481,000 and 56,377,000 shares, respectively	565	564
Special Common Shares, par value $.01 per share; authorized 165,000,000 shares; issued 62,868,000 and 0 shares, respectively	629	
Series A Common Shares, par value $.01 per share; authorized 25,000,000 shares; issued and outstanding 6,440,000 and 6,421,000 shares, respectively	64	64
Capital in excess of par value	1,826,420	1,822,541
Treasury Shares at cost:		
Common Shares, 5,105,000 and 5,362,000 shares, respectively	(208,156)	(449,173)
Special Common Shares 5,128,000 and 0 shares, respectively	(210,600)	
Accumulated other comprehensive income	309,009	370,857
Retained earnings	1,632,682	1,451,343
	3,350,613	3,196,196
	$ 10,404,565	$ 11,012,603

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

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Telephone and Data Systems, Inc. and Subsidiaries
Consolidated Statements of Common Stockholders Equity

	Common Shares (Dollars in thousands)	Special Common Shares	Series A Common Shares	Capital in Excess of Par Value	Treasury Shares Common Shares	Treasury Shares Special Common Shares	Compre-hensive Income (Loss)	Accumulated Other Compre-hensive Income (Loss)	Retained Earnings
Balance, December 31, 2002	**$ 559**	**$**	**$ 66**	**$ 1,832,806**	**$ (404,169)**	**$**		**$ 191,691**	**$ 1,426,611**
Comprehensive Income:									
Net income							$ 32,121		32,121
Net unrealized gains on securities							491,345	491,345	
Net unrealized losses on derivative instruments							(388,218)	(388,218)	
Comprehensive income							$ 135,248		
Dividends:									
Common and Series A Common Shares									(35,792)
Preferred Shares									(401)
Repurchase of Common Shares					(92,365)				
Dividend reinvestment, incentive and compensation plans	1			5,029	2,820				
Conversion of Series A and Preferred Shares	3		(2)	2,939					
Adjust investment in U.S. Cellular for Common Share issuances and repurchases				2,515					
Other				179					
Balance, December 31, 2003	**563**		**64**	**1,843,468**	**(493,714)**			**294,818**	**1,422,539**
Comprehensive Income:									
Net income							$ 66,852		66,852
Net unrealized gains on securities							376,318	376,318	
Net unrealized losses on derivative instruments							(300,279)	(300,279)	
Comprehensive income							$ 142,891		
Dividends:									
Common and Series A Common Shares									(37,845)
Preferred Shares									(203)
Repurchase of Common Shares					(14,854)				
Dividend reinvestment, incentive and compensation plans	1			(27,459)	59,395				
Adjust investment in U.S. Cellular forCommon Share issuances and repurchases				4,604					
Other				1,928					
Balance, December 31, 2004	**564**		**64**	**1,822,541**	**(449,173)**			**370,857**	**1,451,343**
Comprehensive Income:									
Net income							$ 222,544		222,544
Net unrealized loss on securities							(516,003)	(516,003)	
Net unrealized gain on derivative instruments							454,155	454,155	
Comprehensive income							$ 160,696		
Dividends:									

Common, Special Common and Series A Common Shares									(40,374)
Preferred Shares									(202)
Distribution of Special Common Shares (1)		629			217,231	(217,231)			(629)
Dividend reinvestment, incentive and compensation plans	1			(10,085)	23,786	6,631			
Adjust investment in subsidiaries for Common Share issuances and repurchases				11,778					
Other				2,186					
Balance, December 31, 2005	**$ 565**	**$ 629**	**$ 64**	**$ 1,826,420**	**$ (208,156)**	**$ (210,600)**		**$ 309,009**	**$ 1,632,682**

(1) See Note 18.

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

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Telephone and Data Systems, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Telephone and Data Systems, Inc. (TDS) is a diversified telecommunications company providing high-quality telecommunications services to approximately 6.7 million wireless telephone customers and wireline telephone equivalent access lines in 36 states at December 31, 2005. TDS conducts substantially all of its wireless telephone operations through its 81.3%-owned subsidiary, United States Cellular Corporation (U.S. Cellular) and its incumbent local exchange carrier and competitive local exchange carrier wireline telephone operations through its wholly owned subsidiary, TDS Telecommunications Corporation (TDS Telecom). TDS conducts printing and distribution services through its 80%-owned subsidiary, Suttle Straus, which represents a small portion of TDS s operations.

See Note Business Segment Information for summary financial information on each business segment.

Restatement

On April 26, 2006, TDS filed Form 10-K/A 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. Also, on April 26, 2006, TDS filed its Forms 10-Q/A for the quarterly periods ended March 31, 2005 and June 30, 2005 to restate the financial statements and financial information included therewith. All financial statements and other financial information included herein for the years 2004, 2003, 2002 and 2001, including quarterly information for 2004 and 2003, and for the quarterly periods ended March 31, 2005 and June 30, 2005 are presented as restated.

Principles of Consolidation

The accounting policies of 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, its majority-owned subsidiaries since acquisition, the wireless partnerships in which it has a majority general partnership interest and any entity in which TDS has a variable interest that requires TDS to recognize a majority of the entity s expected gains or losses, or both. All material intercompany items have been eliminated.

Business Combinations

TDS uses the purchase method of accounting for business combinations and therefore includes as investments in subsidiaries the value of the consideration given and all direct and incremental costs relating to acquisitions. All costs relating to unsuccessful negotiations for acquisitions are charged to expense when the acquisition is no longer considered probable.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect (a) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and (b) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are included in goodwill and indefinite lived intangible assets, asset retirement obligations, depreciation and income taxes.

Stock Dividend

TDS distributed 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 on May 13, 2005 to shareholders of record on April 29, 2005. Prior period earnings per share have been retroactively adjusted to give effect to the new capital structure.

Cash and Cash Equivalents

Cash and cash equivalents include cash and those short-term, highly liquid investments with original maturities of three months or less.

Outstanding checks totaled $14.1 million and $19.3 million at December 31, 2005 and 2004, respectively, and are classified as Accounts payable in the Consolidated Balance Sheets.

Accounts Receivable and Allowance for Doubtful Accounts

U.S. Cellular s accounts receivable primarily consist of amounts owed by customers pursuant to service contracts and for equipment sales, by agents for equipment sales, by other wireless carriers whose customers have used U.S. Cellular s wireless systems and by unaffiliated third-party partnerships or corporations pursuant to equity distribution declarations.

TDS Telecom s accounts receivable primarily consist of amounts owed by customers for services provided, by connecting companies for carrying interstate and intrastate long-distance traffic on its network, and by interstate and intrastate revenue pools that distribute access charges.

The allowance for doubtful accounts is the best estimate of the amount of probable credit losses in the existing accounts receivable. The allowance is based on historical experience and other factors that could affect collectibility. Accounts receivable balances are reviewed on either an aggregate basis or individual basis for collectibility depending on the type of receivable. When it is probable that an account balance will not be collected, the account balance is charged against the allowance for doubtful accounts. TDS does not have any off-balance sheet credit exposure related to its customers.

The changes in the allowance for doubtful accounts during the years ended December 31, 2005, 2004 and 2003 were as follows:

Year Ended December 31,	2005	2004	2003
	(Dollars in thousands)		
Beginning Balance	$ 17,487	$ 24,055	$ 40,313
Additions, net of recoveries	46,427	56,372	62,353
Deductions	(43,094)	(62,940)	(78,611)
Ending Balance	$ 20,820	$ 17,487	$ 24,055

Materials and Supplies

U.S. Cellular s inventory, primarily handsets and accessories, is stated at the lower of cost or market with cost determined using the first-in, first-out method. TDS Telecom s materials and supplies are stated at average cost.

Marketable Equity Securities

Marketable equity securities are classified as available-for-sale, and are stated at fair market value. Net unrealized holding gains and losses are included in accumulated other comprehensive income, net of tax. Realized gains and losses are determined on the basis of specific identification.

The market values of marketable equity securities may fall below the accounting cost basis of such securities. If management determines the decline in value to be other than temporary, the unrealized loss included in accumulated other comprehensive income is recognized and recorded as a non-operating loss in the Consolidated Statements of Operations.

Factors that management considers in determining whether a decrease in the market value of its marketable equity securities is an other-than-temporary decline include: whether there has been a significant change in the financial condition, operational structure or near-term prospects of the issuer of the security; how long and how much the market value of the security has been below the accounting cost basis; and whether TDS has the intent and ability to retain its investment in the issuer s securities to allow the market value to return to the accounting cost basis.

TDS utilizes derivative financial instruments to reduce market risks due to fluctuations in market prices of marketable equity securities. At December 31, 2005 and 2004, TDS had variable prepaid forward contracts (forward contracts) maturing in 2007 and 2008 in place with respect to substantially all TDS s marketable equity security portfolio, hedging the market price risk with respect to the contracted securities. The downside market risk is hedged at or above the accounting cost basis of the securities thereby eliminating the risk of an other-than-temporary loss.

Derivative Instruments

TDS utilizes derivative financial instruments to reduce marketable equity security market value risk. TDS does not hold or issue derivative financial instruments for trading purposes. TDS recognizes all derivatives as either assets or liabilities on the Consolidated Balance Sheets and measures those instruments at fair value. Changes in fair value of those instruments are reported in the Consolidated Statements of Operations or classified as Accumulated other comprehensive income, net of tax, in the Consolidated Balance Sheets depending on the use of the derivative and whether it qualifies for hedge accounting. The accounting for gains and losses associated with changes in the fair value of the derivative and the effect on the consolidated financial statements depends on the derivative s hedge designation and whether the hedge is anticipated to be highly effective in achieving offsetting changes in the fair value of the hedged item or cash flows of the asset hedged.

Licenses

Licenses consist of costs incurred in acquiring Federal Communications Commission (FCC) licenses to provide wireless service. These costs include amounts paid to license applicants and owners of interests in entities awarded licenses and all direct and incremental costs relating to acquiring the licenses.

TDS accounts for wireless licenses in accordance with the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets (SFAS 142). In accordance with SFAS 142, TDS has determined that such wireless licenses have indefinite lives and, therefore, that the costs of the licenses are not subject to amortization.

TDS has determined that licenses are intangible assets with indefinite useful lives, based on the following factors:

- Radio spectrum is not a depleting asset.
- The ability to use radio spectrum is not limited to any one technology.
- U.S. Cellular and its consolidated subsidiaries are licensed to use radio spectrum through the FCC licensing process, which enables licensees to utilize specified portions of the spectrum for the provision of wireless service.
- U.S. Cellular and its consolidated subsidiaries are required to renew their FCC licenses every ten years. To date, all of U.S. Cellular s license renewal applications, filed for unique licenses in every year from 1994 to the present, have been granted by the FCC. Generally, license renewal applications filed by licensees otherwise in compliance with FCC regulations are routinely granted. If, however, a license renewal application is challenged, either by a competing applicant for the license or by a petition to deny the renewal application, the license will be renewed if the licensee can demonstrate its entitlement to a renewal expectancy. Licensees are entitled to such an expectancy if they can demonstrate to the FCC that they have provided

substantial service during their license term and have substantially complied with FCC rules and policies. U.S. Cellular believes that it could demonstrate its entitlement to a renewal expectancy in any of its markets in the unlikely event any of its license renewal applications were challenged, and therefore believes that it is probable that its future license renewal applications will be granted.

In accordance with SFAS 142, TDS reviews its intangible assets for impairment at least annually.

Goodwill

TDS has goodwill as a result of its acquisitions of licenses and wireless markets. Such goodwill represents the excess of the total purchase price of acquisitions over the fair values of acquired assets, including licenses and other identifiable intangible assets, and liabilities assumed.

Impairment of Intangible Assets

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 of its fiscal year. 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 involve 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. For purposes of 2005 goodwill impairment testing, U.S. Cellular identified five reporting units pursuant to paragraph 30 of SFAS 142. The five reporting units represented 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 FASB Emerging Issues Task Force (EITF) Issue 02-7, Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets (EITF 02-7), and SFAS 142, using the same geographic groupings as its reporting units. Prior to the divestitures of markets in late 2004, there were six reporting units for purposes of testing goodwill and FCC licenses for impairment.

U.S. Cellular prepared valuations of each of the reporting units for purposes of goodwill impairment testing. A discounted cash flow approach was 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 were the selection of a discount rate, estimated future cash flow levels, projected capital expenditures, and selection of terminal value multiples.

U.S. Cellular also prepared 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 and its competitive local exchange carrier reporting units. The incumbent local exchange carrier reporting unit 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.

Investments in Unconsolidated Entities

Investments in unconsolidated entities consists of investments in which TDS holds a non-controlling ownership interest of less than 50%. TDS follows the equity method of accounting, for such investments in which its ownership interest equals or exceeds 20% for corporations and is greater than 3% to 5% for partnerships and limited liability companies. The cost method of accounting is followed for such investments in which TDS s ownership interest is less than 20% for corporations and is less than 3% to 5% for partnerships and limited liability companies, and for investments for which TDS does not have the ability to exercise significant influence.

For its investment in the Los Angeles SMSA Limited Partnership, and other entities for which financial information is readily available, TDS records investment income in the appropriate period based on the investees actual net income (loss) reported for such periods. For certain of its investments in which financial information is not readily available, TDS records investment income on generally a one quarter lag.

Property, Plant and Equipment

U.S. Cellular

U.S. Cellular s property, plant and equipment is stated at the original cost of construction including capitalized costs of certain taxes, payroll-related expenses and estimated costs to remove the assets.

Renewals and betterments of units of property are recorded as additions to plant in service. The original cost of depreciable property retired (along with the related accumulated depreciation) is removed from plant in service and, together with removal cost less any salvage realized, is charged to depreciation expense. Repairs and renewals of minor units of property are charged to system operations expense.

Costs of developing new information systems are capitalized in accordance with Statement of Position 98-1, Accounting for the Cost of Computer Software Developed or Obtained for Internal Use, (SOP 98-1) and amortized over a three- to seven-year period, starting when each new system is placed in service.

TDS Telecom

Incumbent Local Exchange Carrier Operations

TDS Telecom s incumbent local exchange carrier property, plant and equipment is stated at the original cost of construction including the capitalized costs of certain taxes, payroll-related expenses, an allowance for funds used during construction and estimated costs to remove the assets.

Renewals and betterments of units of property are recorded as additions to telephone plant in service. The original cost of depreciable property retired is removed from plant in service and, together with removal cost less any salvage realized, is charged to accumulated depreciation. No gain or loss is recognized on ordinary retirements of depreciable telephone property. Repairs and renewals of minor units of property are charged to plant operations expense.

Costs of developing new information systems are capitalized and amortized starting when each new system is placed in service.

TDS s incumbent local exchange carrier operations follow accounting for regulated enterprises prescribed by SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. Management periodically reviews the criteria for applying these provisions to determine whether continuing application of SFAS No. 71 is appropriate. Management believes that such criteria are still being met and therefore has no current plans to change its method of accounting.

Competitive Local Exchange Carrier Operations

TDS Telecom s competitive local exchange carrier property, plant and equipment is stated at the original cost of construction including capitalized costs of certain taxes, payroll-related expenses and estimated costs to remove the assets.

Renewals and betterments of units of property are recorded as additions to plant in service. The original cost of depreciable property retired (along with the related accumulated depreciation) is removed from plant in service and, together with removal cost less any salvage realized, is charged to depreciation expense. Repairs and renewals of minor units of property are charged to maintenance expense.

Costs of developing new information systems are capitalized and amortized starting when each new system is placed in service.

Depreciation

Except for TDS Telecom s incumbent local exchange carrier operations, the Company provides for depreciation using the straight-line method over the estimated useful lives of the assets.

U.S. Cellular depreciates its leasehold improvement assets associated with leased properties over periods ranging from three to ten years, which approximates the shorter of the assets economic lives or the specific lease terms, as defined in SFAS No. 13, Accounting for Leases, (SFAS 13) as amended.

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.

Asset Impairment

TDS reviews long-lived assets for impairment whenever events or changes in 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 estimated

undiscounted cash flows over the remaining asset life. If the carrying value of the assets is greater than the undiscounted cash flows, 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 cost 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.

TDS Telecom s competitive local exchange carrier incurred a loss on impairment of long-lived assets in 2004. TDS Telecom has two asset groups for purposes of impairment testing. TDS Telecom valued the larger asset group using a market approach and the smaller asset group using an 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.

Assets and Liabilities of Operations Held For Sale

TDS accounts for the disposal of long-lived assets in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). When long-lived assets meet the held for sale criteria set forth in SFAS No. 144, the Consolidated Balance Sheets reflects the assets and liabilities of the properties to be disposed of as assets and liabilities of operations held for sale. The assets and liabilities of operations held for sale are presented separately in the asset and liability sections of the Consolidated Balance Sheets. The revenues and expenses of the properties to be disposed of are included in operations until the transaction is completed.

Asset Retirement Obligations

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

U.S. Cellular is subject to asset retirement obligations associated primarily with its cell sites, retail sites and office locations. Asset retirement obligations generally include obligations to remediate leased land on which U.S. Cellular s cell sites and switching offices are located. U.S. Cellular is also generally required to return leased retail store premises and office space to their pre-existing conditions.

The change in U.S. Cellular s asset retirement obligation during 2005 and 2004 was as follows:

Year Ended December 31,	2005	2004
	(Dollars in thousands)	
Beginning balance	$ 72,575	$ 64,540
Additional liabilities accrued	7,920	5,426
Acquisition of assets	5,461	
Disposition of assets	(2,032)	(2,065)
Accretion expense	6,300	4,674
Ending balance	$ 90,224	$ 72,575

TDS Telecom s incumbent local exchange carriers rates are regulated by the respective state public utility commissions and the FCC and therefore, reflect the effects of the rate-making actions of these regulatory bodies in the financial statements of the TDS incumbent local exchange carriers. The 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 for the incumbent local exchange carriers.

The change in TDS Telecom s incumbent local exchange carriers asset retirement obligation and regulatory obligation during 2005 and 2004 was as follows:

Year Ended December 31,	2005	2004
	(Dollars in thousands)	
Beginning balance	$ 65,000	$ 60,000
Additional liabilities incurred	6,000	6,057
Costs of removal	(780)	(1,057)
Ending balance	$ 70,220	$ 65,000

The regulatory liability included in TDS Telecom s incumbent local exchange carriers asset retirement obligation at December 31, 2005 and 2004 was $33.7 million and $31.1 million, respectively. The asset retirement obligation calculated in accordance with the provisions of SFAS No. 143 at December 31, 2005 and 2004 was $36.5 million and $33.9 million, respectively.

FIN 47 was issued in March 2005 and became effective for TDS beginning December 31, 2005. This Interpretation clarified that the term conditional asset retirement obligation as used in SFAS No. 143 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. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. In accordance with FIN 47, TDS recorded an asset retirement obligation in the fourth quarter of 2005 of $2.6 million and an increase in gross fixed assets of $1.8 million for TDS Telecom s competitive local exchange carrier. The pre-tax effect on the Consolidated Statements of Operations was $1.4 million.

Year Ended December 31,	2005
	(Dollars in thousands)
Beginning balance	$
Additional liabilities incurred	2,649
Costs of removal	
Ending balance	$ 2,649

Revenue Recognition

Revenues from wireless operations primarily consist of:

- charges for access, airtime, roaming and value added services provided for U.S. Cellular s retail customers and to end users through third-party resellers.
- charges to carriers whose customers use U.S. Cellular s systems when roaming.
- charges for long-distance calls made on U.S. Cellular s systems.
- amounts received from the universal service fund in states where U.S. Cellular has been designated an Eligible Telecommunications Carrier.
- equipment and accessory sales.

Revenues are recognized as services are rendered. Revenues billed in advance or in arrears of the service being provided are estimated and deferred or accrued, as appropriate. Equipment sales represent a separate earnings process. Revenues from equipment and accessory sales are recognized upon delivery to the customer. In order to provide better control over handset quality, U.S. Cellular sells handsets to agents. In most cases, the agents receive rebates from U.S. Cellular at the time the agents sign up new customers for U.S. Cellular service or retain current U.S. Cellular customers.

U.S. Cellular accounts for the sale of equipment to agents in accordance with EITF Issue 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products) (EITF 01-9). This standard requires that equipment sales revenues be reduced by the anticipated rebates to be paid to the agents at the time the agent purchases the handsets rather than at the time the agent signs up a new customer or retains a current customer. Similarly, U.S. Cellular offers certain rebates to customers related to handset purchases; in accordance with EITF 01-09, the equipment sales revenue from a handset sale which includes such a rebate is recorded net of the rebate anticipated to be applied to the handset sale.

Activation fees charged with the sale of service only, where U.S. Cellular does not also sell a handset to the end user, are deferred and recognized over the average customer service period. U.S. Cellular defers expense recognition of a portion of commission expenses related to customer activation in the amount of deferred activation fee revenues. This method of accounting for such costs provides for matching of revenue from customer activations to direct incremental costs associated with such activations within each reporting period.

Under EITF Issue 00-21, Accounting for Multiple Element Arrangements, activation fees charged with the sale of equipment and service are allocated to the equipment and service based upon the relative fair values of each item. Due to the subsidy provided on customer handsets, this generally results in the recognition of the activation fee as additional handset revenue at the time of sale.

Revenue from incumbent local exchange carriers primarily consists of charges for:

- the provision of local telephone exchange service;
- compensation for carrying interstate and intrastate long-distance traffic on TDS Telecom s local telephone networks;
- leasing, selling, installing and maintaining customer premise equipment;
- providing billing and collection services;
- providing Internet services;
- reselling long-distance services; and

- selling digital broadcast satellite service.

Revenues are recognized as services are rendered.

TDS s incumbent local exchange carriers participate in revenue pools with other telephone companies for interstate revenue and for certain intrastate revenue. Such pools are funded by toll revenue and/or access charges within state jurisdictions and by access charges in the interstate market. Revenues earned through the various pooling processes are recorded based on TDS Telecom s estimates.

Revenue from competitive local exchange carriers primarily consists of charges for

- the provision of local telephone exchange service;
- compensation for carrying interstate and intrastate long-distance traffic on TDS Telecom s local telephone networks; and
- providing Internet services and reselling long-distance services.

Revenues are recognized as services are rendered.

Cumulative Effect of Accounting Changes

Effective January 1, 2003, TDS adopted SFAS No. 143 and recorded the initial liability for legal obligations associated with an asset retirement. The cumulative effect of the implementation of this accounting standard on periods prior to 2003 was recorded in the first quarter of 2003, decreasing net income by $11.8 million, net of income taxes of $9.7 million and minority interest of $3.0 million or $0.10 per diluted share.

Advertising Costs

TDS expenses advertising costs as incurred. Advertising expense totaled $212.0 million, $171.2 million and $140.8 million in 2005, 2004 and 2003, respectively.

Income Taxes

TDS files a consolidated federal income tax return. Deferred taxes are computed using the liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Both deferred tax assets and liabilities are measured using the tax rates anticipated to be in effect when the temporary differences reverse. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Stock-Based Compensation

TDS accounts for stock options 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, using the intrinsic value method.

No compensation expense was recognized for the stock option and employee stock purchase plans in 2005 and 2004. In 2003, TDS recorded compensation expense of $0.3 million on 53,000 options granted in 2003. No compensation expense was recognized for the remaining 615,000 options granted in 2003. Had compensation expense for all stock option and employee stock purchase 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.

Year Ended December 31,	2005	2004	2003
	(Dollars in thousands, except per share amounts)		
Net Income (Loss)			
Available to Common			
As reported	$ 222,342	$ 66,649	$ 31,704
Pro forma expense	(22,437)	(20,555)	(14,886)
Pro forma	199,905	46,094	16,818
Basic Earnings per Share from			
Net income (loss) available to common			
As reported	1.93	0.58	0.27
Pro forma expense	(0.19)	(0.18)	(0.13)
Pro forma	1.74	0.40	0.14
Diluted Earnings per Share from			
Net income (loss) available to common			
As reported	1.91	0.57	0.27
Pro forma expense	(0.19)	(0.17)	(0.13)
Pro Forma	$ 1.72	$ 0.40	$ 0.14

Certain employees were eligible for retirement at the time that compensatory stock options were granted. Under the terms of the U.S. Cellular option plans, options granted to these individuals will fully vest upon their retirement. Under the terms of TDS option plans, options granted to these individuals do not fully vest upon retirement. TDS and U.S. Cellular use the nominal vesting method to recognize the pro forma expense of these options. This method does not take into account the effect of early vesting due to the retirements of eligible employees.

Upon adoption of SFAS No. 123 (revised 2004), Share-Based Payment, (SFAS 123R) TDS will adopt the non-substantive vesting method. This method immediately recognizes the entire expense of options granted to retirement-eligible employees. TDS believes that if the non-substantive vesting method had been applied to prior periods, the effect on the previously disclosed pro forma expense would be insignificant.

In April 2005, TDS initiated a program granting shares of restricted stock units to key employees. The shares granted in 2005 fully vest in December 2007. U.S. Cellular has granted key employees restricted stock units that fully vest after three years. Compensation expense associated with such restricted stock units is measured at the fair market value of the stock at the date of grant and is recognized on a straight-line basis over the vesting period.

Operating Leases

TDS, U.S. Cellular and TDS Telecom are parties to various lease agreements for office space, retail sites, cell sites and equipment that are accounted for as operating leases. Certain leases have renewal options and/or fixed rental increases. Renewal options that are reasonably assured of exercise are included in determining the lease term. TDS accounts for certain operating leases that contain specific scheduled increases in payments over the lease term by recognizing lease revenue and expense on a straight-line basis over the lease term in accordance with SFAS No. 13, as amended and related pronouncements.

Recent Accounting Pronouncements

SFAS 123R Share-Based Payment was issued in December 2004. In April 2005, the Securities and Exchange Commission (SEC) postponed the effective date of SFAS 123R until the issuer s first fiscal year beginning after June 15, 2005. As a result, TDS will be required to adopt SFAS 123R 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. SFAS 123R also requires that the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow. This requirement may reduce net cash flows from operating activities and increase net cash flows from financing activities in periods after adoption. In addition, in March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC s interpretation of SFAS 123R and the valuation of share-based payments for public companies.

Upon adoption of the standard on January 1, 2006, the Company will follow the modified prospective transition method and expects to value its share-based payment transactions using a Black-Scholes valuation model. Under the modified prospective transition method, TDS will recognize compensation cost in its consolidated financial statements for all awards granted after January 1, 2006 and for all existing awards for which the requisite service has not been rendered as of the date of adoption. Prior period operating results will not be restated.

SFAS No. 154, Accounting Changes and Error Corrections (SFAS 154) which replaces APB Opinion No. 20 Accounting Changes (APB No. 20 and FASB Statement of Financial Accounting Standards No. 3, Reporting Accounting Changes in Interim Financial Statements An Amendment of APB Opinion No. 28 was issued in May 2005. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. Specifically, this statement requires retrospective application of the direct effect of a voluntary change in accounting principle to prior periods financial statements, if it is practicable to do so. SFAS 154 also strictly redefines the term restatement to mean the correction of an error by revising previously issued financial statements. SFAS 154 replaces APB No. 20, which requires that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Accordingly, TDS will be required to apply the provisions of SFAS 154 to accounting changes and error corrections occurring after January 1, 2006.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) was issued in June 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. TDS is currently reviewing the requirements of FIN 48 and has not yet determined the impact, if any, on its financial position or results of operations.

2 INCOME TAXES

Income tax expense (benefit) charged to Income from Continuing Operations Before Minority Interest, Discontinued operations and Cumulative effect of accounting changes is summarized as follows:

Year Ended December 31,	2005 (Dollars in thousands)	2004	2003
Current			
Federal	$ 134,988	$ (226)	$ 10,549
State	14,042	14,772	20,777
Foreign	15,855		
Deferred			
Federal	(10,931)	39,241	23,538
State	(13,382)	5,464	3,398
Total income tax expense from continuing operations	$ 140,572	$ 59,251	$ 58,262

A reconciliation of TDS s income tax expense from continuing operations computed at the statutory rate to the reported income tax expense from continuing operations, and the statutory federal income tax expense rate to TDS s effective income tax expense rate from continuing operations, is as follows:

Year Ended December 31,	2005 Amount (Dollars in millions)	Rate	2004 Amount	Rate	2003 Amount	Rate
Statutory federal income tax expense	$ 138.6	35.0 %	$ 52.0	35.0 %	$ 42.6	35.0 %
State income taxes, net of federal benefit (1)	1.4	0.4	12.7	8.6	10.9	8.9
Minority share of income not included in consolidated tax return	(2.5)	(0.6)	(0.5)	(0.4)	(4.0)	(3.4)
Gains (losses) on investments and sales of assets and impairments of assets	0.7	0.2	22.7	15.3	3.9	3.2
Resolution of prior period tax issues	(3.0)	(0.8)	(21.4)	(14.4)	1.8	1.5
Foreign tax	6.0	1.5				
Net research tax credit	(0.5)	(0.1)	(6.3)	(4.2)		
Other differences, net	(0.1)	(0.1)	0.1		3.1	2.6
Total income tax expense	$ 140.6	35.5 %	$ 59.3	39.9 %	$ 58.3	47.8 %

(1) State income taxes include changes in the valuation allowance which is primarily related to the ability to utilize net operating losses.

Income from continuing operations for each of the three years ended December 31, 2005, includes gains and losses (reported in the captions Gain (loss) on investments, (Gain) loss on sales of assets, Loss on impairment of intangible assets and Loss on impairment of long-lived assets in the Consolidated Statements of Operations) that significantly affected Income From Continuing Operations Before Income Taxes and Minority Interest. The effective income tax rate excluding such gains and losses was 35.1%, 23.6%, and 43.2% for the years ended December 31, 2005, 2004, and 2003, respectively.

During 2005, the Internal Revenue Service (IRS) completed its audit of TDS s federal income tax returns for the years 1997 through 2001 and TDS s claims for research tax credits for the years 1995 through 2001. Primarily based on the results of the audit, TDS reduced its accrual for audit contingencies by $3.0 million (0.8%) in 2005. Also in 2005, TDS recorded a $0.5 million (0.1%) benefit for the research tax credits. TDS reduced its accrual for audit contingencies by $21.4 million (14.4%)

and recorded a $6.3 million (4.2%) benefit for the research tax credits in 2004 based on the IRS s preliminary findings in the income tax return and research tax credit audits.

The foreign tax incurred in 2005 related to the dividend received from Deutsche Telekom.

Income tax expense (benefit) charged to net income (loss) is summarized as follows:

Year Ended December 31,	2005 (Dollars in thousands)	2004	2003
Current			
Federal	$ 134,988	$ (226)	$ 10,529
State	14,042	14,772	20,563
Foreign	15,855		
Deferred			
Federal	(10,404)	42,729	14,729
State	(13,353)	5,652	1,580
Total income tax expense	$ 141,128	$ 62,927	$ 47,401

Included in income tax expense charged to net income (loss) were deferred income tax benefits on cumulative effect of accounting change of $9.7 million in 2003. Income from discontinued operations was decreased by deferred income tax expense of $0.6 million in 2005 and $3.7 million in 2004 and loss from discontinued operations was decreased by an income tax benefit of $1.2 million in 2003.

TDS s current net deferred tax assets totaled $13.4 million and $43.9 million as of December 31, 2005 and 2004, respectively. The net current deferred tax asset at 2005 primarily represents the deferred tax effects of the allowance for doubtful accounts on customer receivables. In 2004, the net current deferred tax asset primarily represented the deferred tax effects of federal net operating loss (NOL) carryforwards expected to be utilized in 2005 and the allowance for doubtful accounts on customer receivables.

TDS s noncurrent deferred tax assets and liabilities at December 31, 2005 and 2004 and the temporary differences that gave rise to them are as follows:

December 31,	2005 (Dollars in thousands)	2004
Deferred Tax Asset		
Net operating loss carryforwards	$ 71,981	$ 61,977
Derivative instruments	185,707	487,216
Other	37,127	38,815
	294,815	588,008
Less valuation allowance	(64,374)	(55,305)
Total Deferred Tax Asset	230,441	532,703
Deferred Tax Liability		
Marketable equity securities	910,723	1,284,872
Property, plant and equipment	367,785	428,355
Partnership investments	61,589	66,432
Licenses	273,375	241,699
Total Deferred Tax Liability	1,613,472	2,021,358
Net Deferred Income Tax Liability	$ 1,383,031	$ 1,488,655

At December 31, 2005, TDS and certain subsidiaries had $1,282 million of state NOL carryforwards (generating a $67.3 million deferred tax asset) available to offset future taxable income primarily of the individual subsidiaries that generated the losses. The state NOL carryforwards expire between 2006 and 2025. Certain subsidiaries that are not included in the federal consolidated income tax return, but file separate federal tax returns, had federal NOL carryforwards (generating a $4.6 million deferred tax asset) available to offset future taxable income. The federal NOL

carryforwards expire between 2006 and 2025. A valuation allowance was established for certain state NOL carryforwards and the federal NOL carryforwards since it is more than likely that a portion of such carryforwards will expire before they can be utilized.

TDS is routinely subject to examination of its income tax returns by the 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 June of 2006, the Internal Revenue Service commenced its audit of the 2002-2004 consolidated federal tax returns of TDS and subsidiaries. The audit is in its preliminary stages.

3 EARNINGS PER SHARE

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

As discussed in Footnote 18 Common Stockholders Equity, TDS distributed 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 on May 13, 2005 to shareholders of record on April 29, 2005. As a result of the Special Common Stock Dividend, each option outstanding prior to May 13, 2005 will receive one Common Share and one Special Common Share per tandem option exercised. Prior period earnings per share have been retroactively adjusted to give effect to the new capital structure.

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

Year Ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands)		
Basic Earnings per Share Income from continuing operations	$ 221,547	$ 60,490	$ 45,519
Preferred dividend requirement	(202)	(203)	(417)
Income from continuing operations available to common	221,345	60,287	45,102
Discontinued operations	997	6,362	(1,609)
Cumulative effect of accounting change			(11,789)
Net income available to common used in basic earnings per share	$ 222,342	$ 66,649	$ 31,704

Year Ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands)		
Diluted Earnings per Share Income from continuing operations available to common used in basic earnings per share	$ 221,345	$ 60,287	$ 45,102
Minority income adjustment (1)	(670)	(506)	(213)
Income from continuing operations available to common	220,675	59,781	44,889
Discontinued operations	997	6,362	(1,609)
Cumulative effect of accounting change			(11,789)
Net income available to common used in diluted earnings per share	$ 221,672	$ 66,143	$ 31,491

(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 dilutive issuable securities were outstanding.

Year Ended December 31,	2005	2004	2003
	(Shares in thousands)		
Weighted average number of shares used in basic earnings per share Common Shares	51,227	50,844	51,195
Special Common Shares	57,636	57,296	57,721
Series A Common Shares	6,433	6,452	6,526
Total	115,296	114,592	115,442
Effect of dilutive securities Common Stock outstanding if Preferred Shares converted (1)	158		
Stock options (2)	627	542	308
Weighted average number of shares of Common Stock used in diluted earnings per share	116,081	115,134	115,750

(1) Preferred Shares convertible into 96,207 Common Shares, and 54,540 Special Common Shares, in 2004, and 230,395 Common Shares, and 190,143 Special Common Shares, in 2003 were not included in computing diluted earnings per share because their effects were anti-dilutive. There were no anti-dilutive Preferred Shares convertible into Common and Special Common Shares in 2005.

(2) Stock options convertible into 669,307 Common Shares, and 669,307 Special Common Shares, in 2005, 682,122 Common Shares, and 682,122 Special Common Shares, in 2004, and 1,277,834 Common Shares, and 1,277,834 Special Common Shares, in 2003 were not included in computing diluted earnings per share because their effects were anti-dilutive.

Year Ended December 31,	2005	2004	2003
Basic Earnings per Share Continuing operations	$ 1.92	$ 0.53	$ 0.38
Discontinued operations	0.01	0.05	(0.01)
Cumulative effect of accounting change			(0.10)
	$ 1.93	$ 0.58	$ 0.27

Year Ended December 31,	2005	2004	2003
Diluted Earnings per Share Continuing operations	$ 1.90	$ 0.52	$ 0.38
Discontinued operations	0.01	0.05	(0.01)
Cumulative effect of accounting change			(0.10)
	$ 1.91	$ 0.57	$ 0.27

4 MARKETABLE EQUITY SECURITIES

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

December 31,	2005	2004
	(Dollars in thousands)	
Deutsche Telekom AG 131,461,861 ordinary shares	$ 2,191,469	$ 2,960,521
Vodafone Group Plc 12,945,915 American Depositary Receipts	277,949	354,459
VeriSign, Inc. 2,361,333 common shares	51,760	79,341
Rural Cellular Corporation 719,396 equivalent common shares	10,511	4,482
Other	1	1
Aggregate fair value	2,531,690	3,398,804
Accounting cost basis	1,543,677	1,543,677
Gross unrealized holding gains	988,013	1,855,127
Equity method unrealized gains	543	261
Deferred tax liability	(387,599)	(732,179)
Minority share of unrealized holding (gains)	(7,738)	(13,987)
Unrealized gains on marketable equity securities, net of tax and minority share	593,219	1,109,222
Derivatives, net of tax and minority share	(284,210)	(738,365)
Accumulated other comprehensive income	$ 309,009	$ 370,857

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 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 telecommunication entity in which several TDS subsidiaries held interests. The investment in Rural Cellular Corporation (Rural Cellular) is the result of a consolidation of several wireless partnerships in which TDS subsidiaries held interests in Rural Cellular, and the distribution of Rural Cellular stock in exchange for these interests.

TDS and its subsidiaries have entered into a number of forward contracts related to the majority of its 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 of the securities, thereby eliminating the risk of an other-than-temporary loss on these contracted securities.

TDS recorded dividend income on its Deutsche Telekom investment of $105.7 million, before taxes, in the second quarter of 2005. Deutsche Telekom did not pay a dividend in 2004 or 2003.

5 LICENSES AND GOODWILL

Changes in TDS s licenses and goodwill are primarily the result of acquisitions, divestitures and impairments of its licenses, wireless markets and telephone companies. See Note 11 Acquisitions, Divestitures and Exchanges for information regarding purchase and sale transactions which affected licenses and goodwill.

In conjunction with its SFAS 142 impairment review in 2004, TDS recorded an impairment loss of $1.8 million on the Daytona Beach, Florida license, which was sold in December 2004. See Note 1 Summary of Significant Accounting Policies under the heading Impairment of Intangible Assets for a detailed discussion of the license impairment testing.

A schedule of license activity follows:

December 31,	**2005**	**2004**
	(Dollars in thousands)	
Consolidated Beginning Balance	$ 1,228,801	$ 1,231,363
U.S. Cellular		
Balance, beginning of year	1,228,801	1,231,363
Acquisitions	155,407	5,629
Divestitures	(21,945)	(8,426)
Impairment loss		(1,830)
Other		2,065
Balance, end of year	1,362,263	1,228,801
TDS Telecom CLEC		
Balance, beginning of year		
Acquisitions	2,800	
Balance, end of year	2,800	
Net Change	136,262	(2,562)
Consolidated Ending Balance	$ 1,365,063	$ 1,228,801

In response to petitions filed by a Regional Bell Operating Company for increases in rates for certain wholesale services that it provides to competitive local exchange carriers, the state public service commissions of Illinois, Wisconsin and Michigan issued orders that adversely affected the cost of providing some services for TDS Telecom s competitive local exchange carrier operations in those states, primarily services to residential customers and certain small business customers. The pricing data for the major markets of TDS Telecom s competitive local exchange carrier became available in the fourth quarter of 2004. These pricing changes, as well as other regulatory changes and competitive pressures in 2004, triggered an impairment review by TDS Telecom of its competitive local exchange carrier operation tangible and intangible assets. As a result of the impairment review, TDS Telecom concluded that goodwill associated with the competitive local exchange carrier operations was impaired and recorded a loss on impairment of intangible assets of $29.4 million in the Consolidated Statements of Operations.

TDS Telecom s carrying value for the competitive local exchange carrier operations exceeded the fair value of such operations, thus requiring the second step of the goodwill test. Pursuant to the second step of the goodwill test, TDS Telecom allocated the fair value of the competitive local exchange carrier operations to all of the assets, including unrecognized intangible assets, (e.g., the value of the customer list and trade names) and liabilities of such operations. As a result of this allocation, there was no implied goodwill. Therefore, the carrying amount of goodwill was charged to expense. See Note 1 Summary of Significant Accounting Policies under the heading Impairment of Intangible Assets for a detailed discussion of the goodwill impairment test.

A schedule of goodwill activity follows:

December 31,	2005	2004
	(Dollars in thousands)	
Consolidated Beginning Balance	$ 843,387	$ 908,065
U.S. Cellular		
Balance, beginning of year	445,212	449,550
Acquisitions	31,119	4,225
Divestitures	(2,967)	(8,257)
Other	(1,747)	(306)
Balance, end of year	471,617	445,212
TDS Telecom ILEC		
Balance, beginning of year	395,894	395,894
Balance, end of year	395,894	395,894
TDS Telecom CLEC		
Balance, beginning of year		29,440
Impairment loss		(29,440)
Balance, end of year		
Other		
Balance, beginning of year	2,281	33,181
Divestitures		(30,900)
Balance, end of year	2,281	2,281
Net Change	26,405	(64,678)
Consolidated Ending Balance	$ 869,792	$ 843,387

6 CUSTOMER LISTS

Customer lists, which are intangible assets resulting from acquisitions of wireless markets, are amortized based on average customer retention periods using the declining balance method. The acquisition of certain consolidated and minority interests in 2005 and 2004 added $32.7 million and $12.9 million, respectively, to the gross balance of customer lists. Amortization expense was $8.3 million, $12.4 million and $15.6 million for the years ended December 31, 2005, 2004 and 2003, respectively. Amortization expense related to customer list assets recorded as of December 31, 2005 and for the years 2006 through 2010 is expected to be $11.8 million, $8.6 million, $6.5 million, $4.9 million and $3.3 million, respectively.

7 INVESTMENTS IN 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, as shown in the following table:

December 31,	2005	2004
	(Dollars in thousands)	
Equity method investments:		
Capital contributions, loans and advances	$ 32,018	$ 25,918
Goodwill	13,758	18,594
Cumulative share of income	473,761	404,765
Cumulative share of distributions	(316,450)	(262,223)
	203,087	187,054
Cost method investments	12,337	12,464
Total investments in unconsolidated entities	$ 215,424	$ 199,518

Investment income totaled $69.8 million, $64.9 million and $52.2 million in 2005, 2004 and 2003, respectively. Investments in unconsolidated entities include goodwill and costs in excess of the

underlying book value of certain investments. At December 31, 2005, $201.6 million represented the investment in underlying equity and $13.8 million represented goodwill. At December 31, 2004, $180.9 million represented the investment in underlying equity and $18.6 million represented goodwill.

In 2005, U.S. Cellular reduced the carrying value of one of its equity method investments by $5.4 million, to its estimated fair value. This change was included in Gain (loss) on investments on the Consolidated Statements of Operations.

In 2004, two consolidated wireless markets were sold to ALLTEL along with other minority interests. In the transaction, TDS sold five minority interests that had been included in Investment in unconsolidated entities. The transaction reduced Investment in unconsolidated entities by $21.4 million representing goodwill of $5.5 million and the investment in underlying equity of $15.9 million.

During 2004, TDS reduced the carrying value of one of its cost method investments by $0.5 million. The change was included in gain (loss) on investment on the Consolidated Statements of Operations.

See Note 11 for additional information related to these transactions.

TDS s investment in Los Angeles SMSA Limited Partnership meets certain significance tests pursuant to Rule 3-09 of SEC Regulation S-X, contributing $52.2 million, $41.8 million and $29.9 million in investment income in 2005, 2004 and 2003, respectively. TDS s more significant investments in unconsolidated entities consist of the following:

	Percentage Ownership	
December 31,	**2005**	**2004**
Los Angeles SMSA Limited Partnership	5.5 %	5.5 %
Midwest Wireless Communications, L.L.C. (1)	14.2 %	14.2 %
North Carolina RSA 1 Partnership	50.0 %	50.0 %
Oklahoma City SMSA Limited Partnership	14.6 %	14.6 %

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

Based primarily on data furnished to TDS by third parties, the following summarizes the combined assets, liabilities and equity, and the combined results of operations of TDS s equity method investments.

December 31,	**2005**	**2004**
	(Dollars in thousands)	
Assets		
Current	$ 399,000	$ 297,000
Due from affiliates	447,000	447,000
Property and other	1,930,000	1,698,000
	$ 2,776,000	$ 2,442,000
Liabilities and Equity		
Current liabilities	$ 237,000	$ 213,000
Deferred credits	107,000	78,000
Long-term debt	29,000	23,000
Long-term capital lease obligations	39,000	23,000
Partners capital and stockholders equity	2,364,000	2,105,000
	$ 2,776,000	$ 2,442,000

Year Ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands)		
Results of Operations			
Revenues	$ 3,472,000	$ 3,088,000	$ 2,543,000
Costs and expenses	2,430,000	2,188,000	1,860,000
Operating income	1,042,000	900,000	683,000
Other income (expense)	21,000	37,000	11,000
Net income	$ 1,063,000	$ 937,000	$ 694,000

8 NOTES RECEIVABLE

Included in notes receivable at December 31, 2005 is a loan of $55.1 million to Airadigm Communications, Inc. (Airadigm), a wireless communications provider, related to the funding of Airadigm s operations. The value of the loan was directly related to the values of certain assets and contractual rights of Airadigm. The loan had been determined by management to be impaired in 2001 due to Airadigm s business strategies and other events that caused management to doubt the probable collection of the amounts due in accordance with the contractual terms of the note. A full valuation allowance of $55.1 million was recorded against the loan.

9 PROPERTY, PLANT AND EQUIPMENT

U.S. Cellular s property, plant and equipment consists of the following:

December 31,	**2005**	**2004**
	(Dollars in thousands)	
Cell site-related equipment	$ 2,174,969	$ 1,977,896
Land, buildings and leasehold improvements	873,304	782,676
Switching-related equipment	694,916	617,650
Office furniture and equipment	361,647	253,813
Systems development	226,864	220,471
Other operating equipment	229,176	154,045
Work in process	92,416	126,920
	4,653,292	4,133,471
Accumulated depreciation	2,076,528	1,692,751
	$ 2,576,764	$ 2,440,720

Useful lives of property, plant and equipment generally range from six to twenty-five years for cell site-related equipment; twenty years for buildings; three to ten years, which approximates the shorter of the assets economic lives or the specific lease terms, for leasehold improvements; one to eight years for switching-related equipment; three to five years for office furniture and equipment; three to seven years for systems development; and five to twenty-five years for other operating equipment. Depreciation expense totaled $465.4 million, $450.3 million and $374.9 million in 2005, 2004 and 2003, respectively. Amortization expense on system development costs totaled $29.4 million, $30.3 million and $34.0 million in 2005, 2004 and 2003, respectively.

In 2005 and 2004, certain U.S. Cellular Time Division Multiple Access (TDMA) digital radio equipment was taken out of service and written down by $2.7 million and $17.2 million, respectively, increasing depreciation expense accordingly. This writedown was necessary to reduce the book value of the assets sold or to be sold to the proceeds received or expected to be received from their disposition.

In 2004, in preparation for the implementation of a fixed asset management and tracking system, including a bar code asset identification feature, U.S. Cellular conducted a physical inventory of its cell site fixed assets. As a result of the physical inventory and related reconciliation, U.S. Cellular charged $1.0 million and $11.9 million to depreciation expense for the write-off of certain assets in 2005 and 2004, respectively.

During 2004, U.S. Cellular adjusted the useful lives of TDMA radio equipment, switch software and antenna equipment. TDMA radio equipment lives were adjusted so that the assets will be fully depreciated by the end of 2008, which is the latest date the wireless industry will be required by law 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 Code Division Multiple Access (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 expected to be in use. These changes increased depreciation expense by $14.9 million in 2004. The changes in useful lives reduced net income by $7.4 million or $0.06 per share in 2004.

TDS Telecom s property, plant and equipment consists of the following:

December 31,	**2005** **(Dollars in thousands)**	**2004**
Incumbent Local Exchange Operations		
Cable and wire	$ 1,082,980	$ 1,057,387
Central office equipment	633,733	625,111
Office furniture and equipment	104,807	111,825
Systems development	133,085	125,244
Land and buildings	83,212	82,738
Other equipment	64,579	65,928
Work in process	44,490	20,905
	2,146,886	2,089,138
Accumulated depreciation	1,330,059	1,242,160
	816,827	846,978
Competitive Local Exchange Operations		
Cable and wire	65,745	55,080
Central office equipment	150,414	138,405
Office furniture and equipment	25,049	23,565
Systems development	13,804	11,446
Land and buildings	365	382
Other equipment	7,405	5,084
Work in process	5,045	4,709
	267,827	238,671
Accumulated depreciation	166,090	139,887
	101,737	98,784
Total	$ 918,564	$ 945,762

Useful lives of incumbent local exchange property generally range from fifteen to twenty years for cable and wire, eight to twelve years for central office equipment, five to ten years for office furniture and equipment, five to seven years for systems development and ten to fifteen years for other equipment. Buildings are depreciated over thirty years. The provision for depreciation as a percentage of depreciable property was 6.5% in 2005, 6.6% in 2004 and 6.6% in 2003. Depreciation expense totaled $133.3 million, $129.7 million and $127.7 million in 2005, 2004 and 2003, respectively.

Useful lives of competitive local exchange property generally range from fifteen to twenty years for cable and wire, five to twelve years for central office equipment, five to ten years for office furniture and equipment, five to seven years for systems development and ten to fifteen years for other equipment. Buildings are depreciated over thirty years. The provision for depreciation as a percentage of depreciable property was 11.3% in 2005, 12.0% in 2004 and 9.0% in 2003. Depreciation expense totaled $24.9 million, $33.9 million and $31.2 million in 2005, 2004 and 2003, respectively.

As discussed in Note 5 Licenses and Goodwill, regulatory changes and competitive pressures in 2004 triggered an impairment review by TDS Telecom of its competitive local exchange carrier operations tangible assets. As a result of the impairment review, TDS Telecom concluded that the long-lived tangible assets of its competitive local exchange carrier operations were impaired and recorded a loss on impairment of tangible assets of $87.9 million in the Statement of Operations.

TDS reviewed the long-lived assets for possible impairment based on an estimate of related undiscounted cash flows over the remaining asset lives. TDS concluded that the undiscounted cash flows attributable to the fixed assets were less than the carrying values of the fixed assets, thus requiring the second step of the long-lived asset impairment test. Pursuant to the second step of the long-lived asset impairment test, TDS Telecom calculated the fair value of the fixed assets. The loss recognized is the difference between the fair value and the carrying value of the fixed assets. See Note 1 Summary of Significant Accounting Policies under the heading Impairment of Tangible Assets for a detailed discussion of the long-lived asset impairment test.

Corporate and other property, plant and equipment consists of the following:

December 31,	**2005**	**2004**
	(Dollars in thousands)	
Property, plant and equipment	$ 72,442	$ 78,869
Accumulated depreciation	41,565	45,907
Total	$ 30,877	$ 32,962

Corporate and other fixed assets consist of assets at the TDS corporate offices and Suttle Straus. The corporate assets primarily consist of office furniture and equipment with useful lives ranging from three to seven years. Depreciation expense is computed on a straight line basis and is assessed out to U.S. Cellular and TDS Telecom. The amounts assessed out totaled $3.1 million, $2.7 million and $3.2 million in 2005, 2004 and 2003. The Suttle Straus assets primarily consist of a building, equipment and vehicles with useful lives ranging from 31.5 years for the building and three to seven years for equipment and vehicles. Depreciation expense is computed on a straight line basis and totaled $2.8 million, $2.5 million and $2.4 million in 2005, 2004 and 2003.

10 SUPPLEMENTAL CASH FLOW DISCLOSURES

Following are supplemental cash flow disclosures regarding interest paid and income taxes paid (refunds received) and certain noncash transactions.

Year Ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands)		
Interest paid	$ 194,632	$ 176,912	$ 143,159
Income taxes paid (refund received)	151,076	(10,512)	(53,112)
Common Shares issued for conversion of Preferred Shares			2,940
Net assets acquired in exchange of business assets	106,757		181,608

11 ACQUISITIONS, DIVESTITURES AND EXCHANGES

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

2005 Activity

On December 19, 2005, U.S. Cellular completed an exchange of certain wireless markets in Kansas, Nebraska and Idaho with a subsidiary of ALLTEL. Under the agreement, U.S. Cellular acquired fifteen Rural Service Area (RSA) markets in Kansas and Nebraska in exchange for two RSA markets in Idaho and $58.1 million in cash, including a preliminary working capital adjustment. U.S. Cellular also capitalized $2.6 million of acquisition-related costs. In connection with the exchange, U.S. Cellular recorded a pre-tax gain of $44.7 million in 2005, which is included in (Gain)

loss on sales of assets in the Consolidated Statements of Operations. The gain represented the excess of the fair value of assets acquired and liabilities assumed over the sum of cash and net carrying value of assets and liabilities delivered in the exchange.

The following table summarizes the fair values of the assets acquired and liabilities assumed and the net carrying value of the assets and liabilities transferred to ALLTEL in the exchange.

	December 19, 2005 (Dollars in thousands)
Assets and (liabilities) acquired:	
Current assets	$ 11,973
Licenses	21,550
Customer list	31,490
Goodwill	30,825
Property, plant and equipment	79,059
Current liabilities	(1,992)
Other liabilities	(5,461)
Net assets acquired	$ 167,444
Assets and (liabilities) delivered:	
Cash	$ 60,687
Current assets, excluding cash	5,544
Licenses, net	21,945
Goodwill	2,967
Property, plant and equipment, net	35,428
Other assets	2,193
Current liabilities	(3,788)
Other liabilities	(2,192)
Net assets delivered	$ 122,784
Gain on exchange transaction	$ 44,660

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 paid to the FCC for the 17 licenses was $129.9 million, net of all bidding credits to which Carroll Wireless was entitled as a designated entity. These 17 licensed areas cover portions of 12 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas.

On January 6, 2006, the FCC granted Carroll Wireless applications with respect to 16 of the 17 licenses for which it had been the successful bidder and dismissed one application, relating to Walla Walla, Washington. Following the completion of Auction 58, the FCC determined that a portion of the Walla Walla license was already licensed to another party and should not have been included in Auction 58. Accordingly, in 2006, Carroll Wireless received a full refund of the $228,000 previously paid to the FCC.

Carroll Wireless is in the process of developing its long-term business and financing plans. As of December 31, 2005, U.S. Cellular has made capital contributions and advances to Carroll Wireless and/or its general partner of $129.9 million to fund the amount paid to the FCC; this amount is included in Licenses in the Consolidated Balance Sheets. 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 FASB Interpretation No. 46R (FIN 46R), as U.S. Cellular anticipates absorbing a majority of Carroll Wireless expected gains or losses. Pending finalization of Carroll Wireless permanent financing plan, and upon request by Carroll Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Carroll Wireless and/or its general partner. In November 2005, U.S. Cellular approved additional funding of up to $1.4 million of which $0.1 million was provided to Carroll Wireless through December 31, 2005.

In the first quarter of 2005, TDS adjusted the previously reported gain related to its sale to ALLTEL of certain wireless properties on November 30, 2004. The adjustment of the gain which resulted from a working capital adjustment that was finalized in the first quarter of 2005, increased the total gain on the sale by $0.5 million to $51.4 million.

In addition, in 2005, U.S. Cellular purchased one wireless property and certain minority interests in wireless markets in which it already owned a controlling interest for $6.9 million in cash. The acquisition costs were allocated among tangible assets and increased Licenses, Goodwill and Customer lists by $3.9 million, $0.3 million and $1.2 million, respectively. TDS Telecom purchased a wireless license for $2.8 million in 2005.

In aggregate, the 2005 acquisitions, divestitures and exchanges increased Licenses by $136.3 million and Goodwill by $28.2 million and Customer lists by $32.7 million.

2004 Activity

On December 20, 2004, U.S. Cellular completed the sale of its Daytona Beach Florida 20 megahertz C block personal communications service license to MetroPCS California/Florida Inc. (MetroPCS) for $8.5 million. U.S. Cellular recorded impairment losses related to the Daytona license of $1.8 million in 2004 and $3.5 million in 2003 included in Gain (loss) on investments in the Consolidated Statements of Operations. Also included in Gain (loss) on investments in 2004 was a loss of $0.3 million associated with buying out the former partner of the Daytona investment.

On November 30, 2004, TDS and U.S. Cellular completed the sale to ALLTEL of certain wireless properties. TDS and U.S. Cellular subsidiaries sold three consolidated markets and six minority interests to ALLTEL for $142.9 million in cash, including repayment of debt and working capital that was subject to adjustment. TDS recorded a gain of $50.9 million related to the ALLTEL transaction representing the excess of the cash received over the net book value of the assets and liabilities sold. The portion of the gain related to the two consolidated markets of $10.1 million, was recorded in (Gain) loss on sales of assets in the Consolidated Statements of Operations. The remaining portion of the gains of $40.8 million was recorded in Gain (loss) on investments on the Consolidated Statement of Operations. TDS included the results of operations of the markets sold to ALLTEL in the Consolidated Statements of Operations through November 30, 2004.

The following table summarizes the recorded value of the assets and liabilities sold to ALLTEL.

	November 30, 2004 (Dollars in thousands)
Assets and liabilities sold:	
Current assets	$ 11,897
Property, plant and equipment	33,223
Licenses	258
Goodwill	39,157
Investment in unconsolidated entities	21,427
Current liabilities	(3,417)
Other assets and liabilities	(647)
Minority interest divested	(9,924)
Net assets sold	$ 91,974
Gain recorded on sale	$ 50,923
Cash received	$ 142,897

On February 18, 2004, U.S. Cellular completed the sale of certain of its wireless properties in southern Texas to AT&T Wireless for $96.5 million in cash, including a working capital adjustment. The U.S. Cellular properties sold to AT&T Wireless included wireless assets and customers in six markets. An aggregate loss of $21.3 million (including a $22.0 million estimate of the (Gain) loss on sales of assets in the fourth quarter of 2003 and a $0.7 million reduction of the loss in 2004) was recorded as a (Gain) loss on sales of assets in the Consolidated Statements of Operations, representing the difference between the carrying value of the markets sold to AT&T Wireless and the cash received in the transaction. On December 31, 2003, U.S. Cellular reflected the assets and liabilities to be transferred to AT&T Wireless as Assets and Liabilities Held for Sale in accordance with SFAS No. 144. U.S. Cellular has included the results of operations of the markets sold to AT&T Wireless in the Consolidated Statement of Operations through February 17, 2004.

The following table summarizes the recorded value of the southern Texas assets and liabilities sold to AT&T Wireless.

	February 18, 2004 (Dollars in thousands)
Assets and (liabilities) sold:	
Current assets	$ 4,342
Property, plant and equipment	46,592
Licenses	63,237
Goodwill	7,565
Current liabilities	(2,455)
Other assets and liabilities, net	(1,483)
Net assets sold	$ 117,798
(Loss) recorded on sale	$ (21,275)
Cash received	$ 96,523

In addition, in 2004 U.S. Cellular purchased certain minority interests in several wireless markets in which it already owned a controlling interest for $40.8 million in cash and $2.0 million to be paid in 2005. These acquisitions increased Licenses, Goodwill and Customer lists by $5.6 million, $4.2 million and $12.9 million, respectively.

In aggregate, the 2004 acquisitions, divestitures and exchanges decreased Licenses by $2.8 million and Goodwill by $34.9 million and increased Customer lists by $12.9 million.

2003 Activity

During 2003, U.S. Cellular completed an exchange with AT&T Wireless along with the acquisition of two minority interests.

On August 1, 2003, U.S. Cellular completed the transfer of properties to AT&T Wireless and the assignments to it by AT&T Wireless of a portion of the licenses covered by the agreement with AT&T Wireless. On the initial closing date, U.S. Cellular also received approximately $34.0 million in cash and minority interests in six markets in which it currently owns a controlling interest. Also on the initial closing date, U.S. Cellular transferred wireless assets and customers in 10 markets in Florida and Georgia to AT&T Wireless. The assignment and development of certain licenses has been deferred by U.S. Cellular for a period of up to five years from the closing date, in accordance with the agreement. U.S. Cellular will take possession of the licenses in staggered closings over that five-year period to comply with service requirements of the Federal Communications Commission. The acquisition of the licenses in the exchange was accounted for as a purchase by U.S. Cellular and the transfer of the properties by U.S. Cellular to AT&T Wireless was accounted for as a sale. TDS capitalized $2.8 million of costs associated with the AT&T Wireless transaction.

The 15 licenses that have been transferred to U.S. Cellular as of December 31, 2003, with a recorded value of $136.6 million, along with the 21 Licenses that have not yet been assigned to U.S. Cellular, with a recorded value of $42.0 million, are included in Licenses on the Consolidated Balance Sheets. TDS has included the results of operations in the Florida and Georgia markets in the Consolidated Statements of Operations until the date of the transfer, August 1, 2003.

Prior to the close of the AT&T Wireless exchange, U.S. Cellular allocated $70.0 million of goodwill related to the properties transferred to AT&T Wireless to Assets of Operations Held for Sale in accordance with SFAS No. 142. A loss of $23.9 million was recorded as a (Gain) loss on sales of assets (included in Operating Expenses) representing the difference between the book value of the markets transferred to AT&T Wireless and the fair value of the assets received or to be received in this transaction.

The following table summarizes the estimated fair values of the AT&T Wireless licenses received and the recorded value of the Florida and Georgia assets and liabilities transferred to AT&T Wireless from U.S. Cellular.

	August 1, 2003 (Dollars in thousands)
Assets and minority interests acquired:	
Cash	$ 33,953
Licenses	178,608
Minority interests	3,000
Total assets and minority interests acquired	$ 215,561
Assets and (liabilities) delivered:	
Current assets	$ 12,785
Licenses, net	76,905
Goodwill	69,961
Property, plant and equipment, net	88,314
Other assets, net	717
Current liabilities	(9,213)
Net assets delivered	$ 239,469
(Loss) on exchange transaction	$ (23,908)

In addition, in 2003, U.S. Cellular acquired the minority interest in two entities which held licenses for $2.3 million.

In aggregate, the 2003 acquisitions, divestitures and exchanges increased Licenses by $101.7 million and reduced U.S. Cellular Goodwill by $62.4 million.

Pro Forma Operations

Assuming the exchanges and acquisitions accounted for as purchases during the period January 1, 2004 to December 31, 2005, had taken place on January 1, 2004; and the acquisitions during the period January 1, 2003 to December 31, 2003, had taken place on January 1, 2003, unaudited pro forma results of operations would have been as follows:

Year Ended December 31,	2005	2004	2003
	(Unaudited, dollars in thousands, except per share amounts)		
Operating revenues	$ 3,939,333	$ 3,678,275	$ 3,312,837
Interest expense (including cost to finance acquisitions)	216,087	198,706	171,391
Income (loss) from continuing operations	213,432	49,224	39,098
Net income (loss)	214,428	55,586	25,701
Earnings per share-basic	1.92	0.97	0.44
Earnings per share-diluted	$ 1.91	$ 0.95	$ 0.43

12 GAIN (LOSS) ON INVESTMENTS

The following table summarizes the components of Gain (loss) on investments included in Investment and Other Income (Expense) in the Consolidated Statements of Operations:

Year Ended December 31,	2005	2004	2003
	(Dollars in thousands)		
Gain on sale of investment interests	$ 500	$ 40,842	$
Impairment of unconsolidated interests	(5,400)	(2,633)	(10,200)
	$ (4,900)	$ 38,209	$ (10,200)

In 2005, TDS finalized the working capital adjustment related to the sale to ALLTEL of certain wireless interests on November 30, 2004. The working capital adjustment increased the total gain on investment from this transaction by $0.5 million.

In 2005, U.S. Cellular reduced the carrying value of one of its equity method investments by $5.4 million to its underlying equity value based on a cash flow analysis.

In 2004, TDS recorded a gain of $40.8 million related to the ALLTEL transaction representing the excess of the cash received over the net book value of the minority investments sold.

TDS recorded impairment losses of $1.8 million in 2004 and $3.5 million in 2003 related to the Daytona license that was sold to MetroPCS in December 2004. Also included in Gain (loss) on investments in 2004 was a $0.3 million loss associated with buying out the former partner of the Daytona investment.

Also in 2004, TDS recorded a $0.5 million impairment loss on an investment in a telephone company accounted for using the cost method.

In 2003, U.S. Cellular reduced the carrying value of one of its cost method investments by $1.7 million to its underlying equity value based on a cash flow analysis.

TDS Telecom recorded an impairment loss of $5.0 million in 2003 on a wireless market investment held by it in conjunction with its annual license and goodwill impairment testing.

13 NOTES PAYABLE

TDS has used short-term debt to finance acquisitions, for general corporate purposes and to repurchase common shares. Proceeds from the sale of long-term debt from time to time have been used to reduce such short-term debt. Proceeds from the sale of non-strategic wireless and other investments from time to time have also been used to reduce short-term debt.

TDS had a $600 million revolving credit facility with a group of banks at December 31, 2005, and had $3.4 million of letters of credit outstanding against the revolving credit facility, leaving $596.6 million available for use. The terms of the revolving credit facility provide for borrowings with interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on TDS s credit rating. At December 31, 2005, the contractual spread was 60 basis points. The margin percentage increases by 10 basis points if more than 50% of the facility is outstanding. TDS may select borrowing periods of either seven days or one, two, three or six months (the one-month LIBOR rate was 4.39% at December 31, 2005). If TDS provides less than two days notice of intent to borrow, interest on borrowings is the prime rate less 50 basis points (the prime rate was 7.25% at December 31, 2005). The credit facility expires in December 2009. TDS currently pays facility and administration fees at an aggregate annual rate of 0.21% of the total $600 million facility. These fees totaled $0.8 million, $0.7 million and $0.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

TDS also had $75 million in direct bank lines of credit at December 31, 2005, all of which were unused. The terms of the direct bank lines of credit provide for borrowings at negotiated rates up to the prime rate.

At December 31, 2005, U.S. Cellular s $700 million revolving credit facility had $135 million of borrowings and $0.3 million of letters of credit outstanding against it leaving $564.7 million available for use. The terms of the revolving credit facility provide for borrowings with interest at the LIBOR rate plus a contractual spread based on U.S. Cellular s credit rating. At December 31, 2005, the contractual spread was 60 basis points. U.S. Cellular may select borrowing periods of either seven days or one, two, three or six months (the one-month LIBOR rate was 4.39% at December 31, 2005). If U.S. Cellular provides less than two days notice of intent to borrow, interest on borrowings is the prime rate less 50 basis points (the prime rate was 7.25% at December 31, 2005). The credit facility expires in December 2009. U.S. Cellular currently pays facility and administration fees at an aggregate annual rate of 0.21% of the total facility. These fees totaled $1.0 million in 2005, $1.5 million in 2004 and $0.7 million in 2003.

Information concerning notes payable is shown in the table that follows:

Year Ended December 31,	**2005**	**2004**
	(Dollars in thousands)	
Balance at end of year	$ 135,000	$ 30,000
Weighted average interest rate at end of year	5.0 %	4.8 %
Maximum amount outstanding during the year	$ 135,000	$ 100,000
Average amount outstanding during the year (1)	$ 45,000	$ 47,917
Weighted average interest rate during the year (1)	4.0 %	2.1 %

(1) The average was computed based on month-end balances.

The financial covenants associated with TDS s and U.S. Cellular s lines of credit require that each company maintain certain debt-to-capital and interest coverage ratios. In addition, the financial covenants associated with revolving credit facilities and lines of credit of certain subsidiaries require that these subsidiaries maintain certain debt-to-capital and interest coverage ratios. The covenants of U.S. Cellular s revolving credit facility prescribe certain terms associated with intercompany loans from TDS or TDS subsidiaries to U.S. Cellular or U.S. Cellular subsidiaries.

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 or accelerate 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.

On July 11, 2005, Moody s Investors Service downgraded TDS and U.S. Cellular from a Baa1 rating with a negative outlook to Baa2 with a stable outlook. As a result of the downgrade, the contractual spread applied to LIBOR in determining the interest rate applicable to the borrowings under TDS and U.S. Cellular revolving credit facilities increased to 45 basis points from 30 basis points. In addition, the facility fee charged on the revolving credit agreements increased to 15 basis points from 10 basis points.

On November 10, 2005, Moody s Investors Service downgraded TDS and U.S. Cellular from a Baa2 rating with a stable outlook to Baa3 and placed the ratings under review for possible further downgrade. The contractual spread applied to LIBOR in determining the interest rate applicable to the borrowings under the TDS and U.S. Cellular revolving credit facilities increased to 60 basis points from 45 basis points. In addition, the facility fee increased to 20 basis points from 15 basis points. Standard & Poor s did not take any ratings actions holding its rating at A- with a negative outlook and Fitch s put TDS and U.S. Cellular on Rating Watch Negative and left the ratings unchanged at BBB+.

On January 25, 2006, Standard & Poors s placed the A- rating of TDS and U.S. Cellular on Credit Watch with negative implications.

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. On April 19, 2004, December 22, 2004 and November 10, 2005 TDS and U.S. Cellular announced that they would restate certain financial statements. The restatements resulted in defaults under the revolving credit agreements and one line of credit agreement. TDS and U.S. Cellular were not in violation of any covenants that require TDS and U.S. Cellular to maintain certain financial ratios. TDS and U.S. Cellular did not fail to make any scheduled payments under such credit agreements. TDS and U.S. Cellular received waivers from the lenders associated with the credit agreements, under which the lenders agreed to waive any defaults that may have occurred as a result of the restatements. The waivers require the Form 10-K for the year ended December 31, 2005 to be filed by August 31, 2006, the Form 10-Q for the quarter ended March 31, 2006 to be filed within 30 days after the filing of the Form 10-K for the year ended December 31, 2005 and the Form 10-Q for the quarter ended June 30, 2006 to be filed within 45 days after the filing of the Form 10-Q for the quarter ended March 31, 2006.

14 LONG-TERM DEBT

Long-term debt is as follows:

December 31,	**2005**	**2004**
	(Dollars in thousands)	
Telephone and Data Systems, Inc. (Parent)		
6.625% senior notes, maturing 2045	$ 116,250	$
7.6% Series A notes, due in 2041	500,000	500,000
Medium-term notes, various rates averaging 10.0% in 2005 and 9.8% in 2004, due 2006	35,000	52,200
7.0% senior notes, maturing in 2006	200,000	200,000
Purchase contracts, averaging 6.0%, due through 2021	1,097	1,097
Total Parent	852,347	753,297
Subsidiaries		
U.S. Cellular		
6.7% senior notes maturing in 2033	544,000	544,000
Unamortized discount	(12,615)	(13,070)
	531,385	530,930
7.5% senior notes, maturing in 2034	330,000	330,000
8.75% senior notes, maturing in 2032	130,000	130,000
Other, 9.0% due in 2009	10,000	10,000
TDS Telecom		
Rural Utilities Service, Rural Telephone Bank and Federal Financing Bank Mortgage notes, various rates averaging 0.0% in 2005 and 5.7% in 2004, due through 2013	4,634	234,147
Other long-term notes, various rates averaging 0.0% in 2005 and 6.5% in 2004, due through 2017	35	9,891
Other Subsidiaries		
Long-term notes and leases, 2.7% to 9.9%, due through 2009	13,066	15,121
Total Subsidiaries	1,019,120	1,260,089
Total Long-term debt	1,871,467	2,013,386
Less: Current portion of long-term debt	237,948	38,787
Total Long-term debt, excluding current portion	$ 1,633,519	$ 1,974,599

Telephone and Data Systems, Inc. (Parent)

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.

The unsecured 7.6% Series A notes, issued in 2001, are due in 2041. Interest is payable quarterly. The notes are redeemable by TDS beginning December 2006 at 100% of the principal amount plus accrued and unpaid interest.

The unsecured medium-term notes mature in 2021. Interest is payable semi-annually. The medium-term notes may be redeemed by TDS at par value plus accrued but unpaid interest. As of December 31, 2005, medium-term notes aggregating $35.0 million have an initial redemption date in 2006. On December 23, 2005, TDS issued notice of its intent to redeem the $35.0 million balance of the medium-term notes in 2006. This amount was reclassified to Current portion of long-term debt on the Consolidated Balance Sheet as of December 31, 2005. TDS redeemed these notes on January 23, 2006 and February 27, 2006 at a price equal to the principal amount plus accrued interest to the redemption date. TDS redeemed medium-term notes aggregating $17.2 million in 2005.

TDS has reclassified its $200.0 million unsecured 7% senior notes to Current portion of long-term debt on the Consolidated Balance Sheet. The unsecured 7.0% senior notes are due August 2006. Interest is payable semi-annually. The notes are redeemable at any time at the option of TDS, at a redemption price equal to the greater of (a) 100% of the principal amount of such notes, plus accrued but unpaid interest, or (b) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semi-annual basis at the Treasury Rate plus 25 basis points.

Subsidiaries U.S. Cellular

In June 2004, U.S. Cellular issued $330 million in aggregate principal amount of unsecured 7.5% senior notes due June 15, 2034. Interest on the notes is payable quarterly. U.S. Cellular may redeem the notes, in whole or in part, at any time on and after June 17, 2009, 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, was approximately $319.6 million.

Also, in June 2004, U.S. Cellular issued $100 million in aggregate principal amount of unsecured 6.7% senior notes due December 15, 2033, priced to yield 7.21% to maturity. The net proceeds from this offering, after deducting underwriting discounts, was approximately $92.9 million. This was a further issuance of U.S. Cellular s 6.7% senior notes that were issued in December 2003, in the aggregate principal amount of $444 million.

In December 2003, U.S. Cellular sold $444 million of 6.7% senior notes due December 15, 2033, priced to yield 6.83% to maturity. Interest is paid semi-annually. U.S. Cellular may redeem the notes, in whole or in part, at any time prior to maturity at a redemption price equal to the greater of (a) 100% of the principal amount of such notes, plus accrued but unpaid interest, or (b) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semi-annual basis at the Treasury Rate plus 30 basis points. The proceeds were used to repay a portion of amounts outstanding under the revolving credit facility.

In November 2002, U.S. Cellular sold $130 million of unsecured 8.75% senior notes due in November 2032. Interest is paid quarterly. U.S. Cellular may redeem the notes beginning in 2007 at the principal amount plus accrued interest.

Subsidiaries TDS Telecom

Prior to 2005, TDS Telecom s Rural Utilities Service (RUS), Rural Telephone Bank (RTB) and Federal Financing Bank Mortgage notes issued under certain loan agreements with the RUS, RTB and Federal Financing Bank, agencies of the United States of America, were repaid in equal monthly or quarterly installments covering principal and interest beginning six months to three years after dates of issue and expiring through 2035. Substantially all telephone plant of the incumbent local exchange companies was pledged under RUS and RTB mortgage notes and various other obligations of the telephone subsidiaries.

On March 31, 2005, TDS Telecom subsidiaries repaid approximately $105.6 million in principal amount of notes to the RUS and the RTB plus accrued interest of $0.6 million. TDS Telecom subsidiaries incurred prepayment costs 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 Consolidated Statements of Operations. The RUS and RTB debt, held at individual TDS Telecom incumbent local exchange carriers, had a weighted average interest rate of 5.5% and maturity of approximately 12 years.

On June 30, 2005, TDS Telecom subsidiaries repaid approximately $127.0 million in principal amount of notes to the RUS, the RTB, and the Federal Financing Bank (FFB), all agencies of the United States Department of Agriculture, and the Rural Telephone Finance Cooperative (RTFC), a member-owned, not-for-profit lending cooperative that serves the financial needs of the rural telecommunications industry. TDS Telecom subsidiaries paid accrued interest of $0.8 million and additional prepayment costs of $1.2 million associated with these repayments. Unamortized debt issuance costs related to the notes totaling $0.3 million were expensed and included in Other income (expense), net in the Statements of Operations. The RUS, RTB, FFB and RTFC debt, held at individual TDS Telecom incumbent local exchange carriers, had a weighted average interest rate of 6.2% and maturity of approximately 15 years.

The remaining RUS long-term debt consists of rural economic development loans that are financed by RUS to provide low-to zero-interest loans to electric and telephone utilities to promote sustainable rural economic development and job creation projects. All of these funds have been loaned to businesses in the communities that TDS Telecom serves to promote economic growth.

Consolidated

The annual requirements for principal payments on long-term debt, excluding amounts due on the forward contracts, are approximately $203.5 million, $3.0 million, $3.0 million, $13.5 million and $3.0 million for the years 2006 through 2010, respectively.

The covenants associated with TDS s long-term debt obligations, among other things, restrict TDS s ability, subject to certain exclusions, to incur additional liens; enter into sale and leaseback transactions; and sell, consolidate or merge assets.

The late filing of TDS s and U.S. Cellular s Forms 10-Q for the quarterly period ended September 30, 2005, Forms 10-K for the year ended December 31, 2005 and Forms 10-Q for the quarterly period ended March 31, 2006 and the failure to deliver such Forms 10-K and 10-Q to the trustees of the TDS and U.S. Cellular debt indentures on a timely basis, resulted in non-compliance under such debt indentures. However, this non-compliance did not result in an event of default or a default. TDS and U.S. Cellular believe that non-compliance was cured upon the filing of their Forms 10-Q for the quarterly period ended September 30, 2005 and Forms 10-K for the year ended December 31, 2005, but that non-compliance continues to exist with respect to their Form 10-Q for the quarterly period ended March 31, 2006. TDS and U.S. Cellular have not failed to make nor do they expect to fail to make any scheduled payment of principal or interest under such indentures.

In addition, the covenants associated with long-term debt obligations of certain subsidiaries of TDS, among other things, restrict these subsidiaries ability, subject to certain exclusions, to incur additional liens; enter into sale and leaseback transactions; sell, consolidate or merge assets, and pay dividends.

Forward Contracts

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. Subsidiaries of TDS have forward contracts with counterparties in connection with its Deutsche Telekom, Vodafone and VeriSign marketable equity securities with proceeds aggregating $1,631.8 million. The principal amount of the forward contracts was accounted for as a loan. The collar portions of the forward contracts are accounted for as derivative instruments. The following table summarizes certain facts surrounding the contracted securities, pledged as collateral for the forward contracts.

December 31,		**2005**	**2004**
Security	**Shares**	**Loan Amount**	
	(Dollars in thousands)		
Deutsche Telekom	131,461,861	$ 1,532,257	$ 1,532,257
Unamortized debt discount		(45,499)	(62,192)
		1,486,758	1,470,065
Vodafone	12,945,915	201,038	201,038
VeriSign	2,361,333	20,819	20,819
Unamortized debt discount		(1,333)	(2,278)
		19,486	18,541
		$ 1,707,282	$ 1,689,644

The Deutsche Telekom forward contracts mature from July 2007 to September 2008. Contracts aggregating $1,094.3 million require quarterly interest payments at the LIBOR rate plus 50 basis points (the three-month LIBOR rate was 4.54% at December 31, 2005). Contracts aggregating $438.0 million are structured as zero coupon obligations with a weighted average effective interest rate of 4.4% per year. No interest payments are required for the zero coupon obligations during the contract period.

The Vodafone forward contracts mature in May and October 2007. The Vodafone forward contracts require quarterly interest payments at the LIBOR rate plus 50 basis points (the three-month LIBOR rate was 4.54% at December 31, 2005).

The VeriSign forward contract matures in May 2007 and is structured as a zero coupon obligation with an effective interest rate of 5.0% per year. TDS is not required to make interest payments during the contract period.

Forward contracts aggregating $738.7 million and $1,015.4 million mature in 2007 and 2008, respectively.

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 accounting 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, subsidiaries of TDS and U.S. Cellular will continue to own the contracted shares and will receive dividends paid on such contracted shares, if any. The forward contracts 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. TDS and U.S. Cellular have provided guarantees to the counterparties which provide assurance that all principal and interest amounts are paid by its consolidated subsidiaries upon settlement of the contracts.

TDS and U.S. Cellular are required to comply with certain covenants under the forward contracts. On April 19, 2004, December 22, 2004 and November 10, 2005, TDS and U.S. Cellular announced that they would restate certain financial statements. The restatements resulted in defaults under the forward contracts. TDS and U.S. Cellular were not in violation of any covenants that require TDS and U.S. Cellular to maintain certain financial ratios. TDS and U.S. Cellular did not fail to make any scheduled payments under such forward contracts. TDS and U.S. Cellular received waivers from the counterparty to such forward contracts, under which the counterparty agreed to waive any defaults that may have occurred as a result of the restatements. The waivers require the Form 10-K for the year ended December 31, 2005 to be filed by August 31, 2006, the Form 10-Q for the quarter ended March 31, 2006 to be filed within 30 days after the filing of the Form 10-K for the year ended December 31, 2005 and the Form 10-Q for the quarter ended June 30, 2006 to be filed within 45 days after the filing of the Form 10-Q for the quarter ended March 31, 2006.

15 FINANCIAL INSTRUMENTS AND DERIVATIVES

Financial Instruments

Financial instruments are as follows:

December 31,	**2005**		**2004**	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
	(Dollars in thousands)			
Cash and cash equivalents	$ 1,095,791	$ 1,095,791	$ 1,171,105	$ 1,171,105
Current portion of long-term debt	237,948	237,948	38,787	38,787
Notes payable	135,000	135,000	30,000	30,000
Long-term debt	1,633,519	1,645,981	1,974,599	2,083,826
Forward contracts	1,707,282	1,697,565	1,689,644	1,691,101
Preferred shares	$ 3,863	$ 2,741	$ 3,864	$ 3,249

The carrying amounts of cash and cash equivalents, the current portion of long-term debt and notes payable approximate fair value due to the short-term nature of these financial instruments. The fair value of TDS s long-term debt was estimated using market prices for the 7.6% Series A notes, the 7.0% senior notes, the 6.7% senior notes, the 7.5% senior notes, the 8.75% senior notes and discounted cash flow analysis for the remaining debt. The carrying amounts of the variable rate forward contracts approximates fair value due to the repricing of the instruments on a quarterly basis. The fair value of the zero coupon forward contracts and preferred shares were determined using discounted cash flow analysis.

Derivatives

Subsidiaries of TDS have forward contracts in connection with its Deutsche Telekom, Vodafone and VeriSign marketable equity securities. The principal amount of the forward contracts is accounted for as a loan. The collar portions of the forward contracts are accounted for as derivative instruments. The following table summarizes the shares contracted and the downside limit and upside potential.

December 31, 2005 **Security**	**Shares**	**Downside Limit (Floor)**	**Upside Potential (Ceiling)**
VeriSign	2,361,333	$8.82	$11.46
Vodafone	12,945,915	$15.07 - $16.07	$18.76 - $21.44
Deutsche Telekom	131,461,861	$10.74 - $12.41	$13.68 - $16.37

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The forward contracts for the forecasted transactions and hedged items are designated as cash flow or fair value hedges and recorded as assets or liabilities on the balance sheet at their fair value. The fair value of the derivative instruments is determined using the Black-Scholes model.

The Deutsche Telekom and Vodafone forward contracts are designated as cash flow hedges, where changes in the forward contract s fair value are recognized in accumulated other comprehensive income until they are recognized in earnings when the forward contract is settled. If the delivery of the contracted shares does not occur, or it becomes probable that it will not occur, the gain or loss on the related cash flow hedge is recognized in earnings at that time. No components of the forward contracts are excluded in the measurement of hedge effectiveness. The critical terms of the forward contracts are the same as the underlying forecasted transactions; therefore, changes in the fair value of the forward contracts are anticipated to be effective in offsetting changes in the expected cash flows from the forecasted transactions. No gains or losses related to ineffectiveness of cash flow hedges were recognized in earnings for the years ended December 31, 2005, 2004 and 2003.

With regard to the forward contracts on the Vodafone shares and the Deutsche Telekom shares, transactions being accounted for as cash flow hedges, management has evaluated the expected timing of the hedged forecasted transactions to deliver the underlying shares to settle the forward contracts, and believes that these forecasted transactions are probable of occurring in the periods specified in the related hedge documentation or within an additional two-month period of time thereafter.

The VeriSign forward contract is designated as a fair value hedge, where effectiveness of the hedge is assessed based upon the intrinsic value of the underlying options. The intrinsic value of the forward contract is defined as the difference between the applicable option strike price and the market value of the contracted shares on the balance sheet date. Changes in the intrinsic value of the options are expected to be perfectly effective at offsetting changes in the fair value of the hedged item. Changes in the intrinsic value of the options are recognized in Accumulated other comprehensive income until they are recognized in earnings when the forward contract is settled. Changes in the time value of the options are excluded from the effectiveness assessment and are recognized in earnings each period. Changes in the time value of the options aggregating a $0.6 million gain, $2.2 million gain and $3.5 million loss for the years ended December 31, 2005, 2004 and 2003, respectively, were included in the Consolidated Statements of Operations caption Other income (expense).

TDS reported a derivative liability of $449.2 million and $1,210.5 million at December 31, 2005 and 2004, respectively. These amounts are included in the Consolidated Balance Sheets caption Derivative liability.

16 MINORITY INTEREST IN SUBSIDIARIES

The following table summarizes the minority shareholders and partners interests in the equity of consolidated subsidiaries.

December 31,	**2005**	**2004**
	(Dollars in thousands)	
U.S. Cellular		
Public shareholders	$ 515,307	$ 467,107
Subsidiaries partners and shareholders	37,577	32,361
	$ 552,884	$ 499,468

The Board of Directors of U.S. Cellular has authorized the repurchase of a limited amount of its common shares on a quarterly basis, primarily for use in the employee benefit plans. In 2004, U.S. Cellular repurchased 91,700 U.S. Cellular Common Shares under this authorization for an aggregate purchase price of $3.9 million representing an average per share price of $42.62 including commissions. U.S. Cellular repurchased no shares during 2005 or 2003.

Under SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, (SFAS 150) 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 2100.

The settlement value of TDS s mandatorily redeemable minority interests was estimated to be $128.1 million at December 31, 2005 and $110.6 million at December 31, 2004. 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 December 31, 2005 and 2004, net of estimated liquidation costs. This amount is being disclosed pursuant to the requirements of FASB Staff Position (FSP) No. FAS 150-3, Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150 Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. 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 December 31, 2005 and 2004 was $34.2 million and $30.6 million, respectively, and is included in Minority Interest in Subsidiaries in the Consolidated Balance Sheets. The excess of the aggregate settlement value over the aggregate carrying value of the mandatorily redeemable minority interests of $93.9 million and $80.0 million, respectively, was 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 under GAAP. The estimate of settlement value was based on certain factors and assumptions. Change in those factors and assumptions could result in a materially larger or smaller settlement amount.

17 PREFERRED SHARES

The holders of outstanding Preferred Shares are entitled to one vote per share. TDS had 38,645 Preferred Shares ($100 per share stated value) authorized, issued and outstanding at December 31, 2005 and 2004, 30,000 of which are redeemable at the option of TDS at $100 per share plus accrued and unpaid dividends beginning in 2007. At December 31, 2005 and 2004, 30,000 Preferred Shares were convertible into 54,540 TDS Common Shares and Special Common Shares at the option of the holder. Preferred Shares totaling 8,228 are redeemable at the option of TDS for 4.35 U.S. Cellular common shares or equivalent value in cash or TDS Common Shares. The remaining Preferred Shares are not redeemable. The average dividend rate was $5.23 per share in 2005 and 2004.

The following is a schedule of Preferred Shares activity.

Year Ended December 31,	2005	2004	2003
	(Dollars in thousands)		
Balance, beginning of year	$ 3,864	$ 3,864	$ 6,954
Less:			
Conversion of preferred			(2,940)
Redemption of preferred	(1)		(150)
Balance, end of year	$ 3,863	$ 3,864	$ 3,864

18 COMMON STOCKHOLDERS EQUITY

Stock Dividend

On February 17, 2005, the TDS Board of Directors 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.

As a result, and following the satisfaction of other conditions, the distribution of TDS Special Common Shares became effective on May 13, 2005 to shareholders of record on April 29, 2005. In the distribution, one TDS Special Common Share was distributed in the form of a stock dividend with respect to each TDS Common Share and TDS Series A Common Share issued on April 29, 2005.

Prior period earnings per share have been retroactively adjusted to give effect to the new capital structure.

Common Stock

The holders of Common Shares and Special Common Shares are entitled to one vote per share. The holders of Special Common Shares are entitled to one vote per share in the election of directors. The holders of Common Shares have full voting rights, the holders of Special Common Shares have limited voting rights. Other than the election of directors, the Special Common Shares have no votes except as otherwise required by law. The holders of Series A Common Shares are entitled to ten votes per share. Series A Common Shares are convertible, on a share for share basis, into Common Shares and Special Common Shares. TDS has reserved 6,440,000 Common Shares and 6,580,000 Special Common Shares at December 31, 2005, for possible issuance upon such conversion.

The following table summarizes the number of Common, Special Common and Series A Common Shares outstanding.

	Common Shares	Special Common Shares	Common Treasury Shares	Special Common Treasury Shares	Series A Common Shares
	(Shares in thousands)				
Balance December 31, 2002	55,875		(3,799)		6,602
Repurchase of Common Shares			(1,961)		
Conversion of Series A Common Shares	187				(187)
Dividend reinvestment, incentive and compensation plans	66		65		25
Other			7		
Conversion of Preferred Shares	154				
Balance December 31, 2003	56,282		(5,688)		6,440
Repurchase of Common Shares			(215)		
Conversion of Series A Common Shares	37				(37)
Dividend reinvestment, incentive and compensation plans	58		537		17
Other			4		1
Balance December 31, 2004	56,377		(5,362)		6,421
Conversion of Series A Common Shares	4				(4)
Distribution of Special Common Shares		62,859		(5,268)	
Dividend reinvestment, incentive and compensation plans	100	9	251	140	23
Other			6		
Balance December 31, 2005	56,481	62,868	(5,105)	(5,128)	6,440

Common Share Repurchase Program

The Board of Directors of TDS from time to time has authorized the repurchase of TDS Common Shares. In February 2003, the Board of Directors authorized the repurchase of up to 3.0 million TDS Common Shares. As of December 31, 2005, TDS has repurchased 2,175,700 Common Shares under this authorization, leaving 824,300 shares available for repurchase under the authorization. Share repurchases may be made from time to time on the open market or at negotiated prices in private transactions. TDS may use repurchased shares to fund acquisitions and for other corporate purposes. The expiration date of the program is February 28, 2006. TDS does not have authorization to repurchase Special Common Shares.

No shares were repurchased in 2005. In 2004, TDS repurchased 214,800 Common Shares for an aggregate purchase price of $14.9 million, representing an average per share price of $69.15 including commissions. TDS reissued 256,000 Common Shares in 2005, 541,000 in 2004 and 72,000 in 2003 primarily for incentive and compensation plans. TDS reissued 140,000 Special Common Shares in 2005.

Accumulated Other Comprehensive Income

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

Year Ended December 31,	2005 (Dollars in thousands)	2004
Marketable Equity Securities		
Balance, beginning of year	$ 1,109,222	$ 732,904
Add (deduct):		
Unrealized gains (losses) on marketable equity securities	(867,114)	626,609
Income tax (expense) benefit	344,581	(247,764)
	(522,533)	378,845
Equity method unrealized gains	281	135
Minority share of unrealized (gains) losses	6,249	(2,686)
Net unrealized gains (losses)	(516,003)	376,294
Recognized losses on marketable equity securities		(40)
Income tax (benefit)		16
Net recognized losses from marketable equity securities included in net income		(24)
Net change in unrealized gains (losses) on marketable equity securities in comprehensive income	(516,003)	376,318
Balance, end of year	$ 593,219	$ 1,109,222
Derivative Instruments		
Balance, beginning of year	$ (738,365)	$ (438,086)
Add (deduct):		
Unrealized gain (loss) on derivative instruments	760,671	(500,086)
Income tax (expense) benefit	(301,507)	198,032
	459,164	(302,054)
Minority share of unrealized (gains) losses	(5,009)	1,775
Net change in unrealized gains (losses) on derivative instruments included in comprehensive income	454,155	(300,279)
Balance, end of year	$ (284,210)	$ (738,365)
Accumulated Other Comprehensive Income		
Balance, beginning of year	$ 370,857	$ 294,818
Net change in marketable equity securities	(516,003)	376,318
Net change in derivative instruments	454,155	(300,279)
Net change in unrealized gains (losses) included in comprehensive income	(61,848)	76,039
Balance, end of year	$ 309,009	$ 370,857

19 DIVIDEND REINVESTMENT, INCENTIVE AND COMPENSATION PLANS

The following table summarizes Common, Special Common and Series A Common Shares issued, including reissued Treasury Shares, for the employee stock purchase plans, stock-based compensation plans and dividend reinvestment plans described below.

Year Ended December 31,	2005	2004
Common Shares		
Dividend reinvestment plan	101,000	58,000
Employee stock purchase plan	26,000	19,000
Stock-based compensation plans	224,000	518,000
	351,000	595,000
Special Common Shares		
Dividend reinvestment plan	9,000	
Stock-based compensation plans	140,000	
	149,000	
Series A Common Shares dividend reinvestment plan	23,000	17,000

Tax-Deferred Savings Plan

TDS had reserved 45,000 Common Shares and 45,000 Special Common Shares at December 31, 2005, for issuance under the TDS Tax-Deferred Savings Plan, a qualified profit-sharing plan pursuant to Sections 401(a) and 401(k) of the Internal Revenue Code. Participating employees have the option of investing their contributions and TDS s contributions in a TDS Common Share fund, a U.S. Cellular Common Share fund or certain unaffiliated funds.

Dividend Reinvestment Plans

TDS had reserved 195,000 Common Shares and 341,000 Special Common Shares at December 31, 2005, for issuance under the Automatic Dividend Reinvestment and Stock Purchase Plan and 56,000 Series A Common Shares for issuance under the Series A Common Share Automatic Dividend Reinvestment Plan. These plans enable holders of TDS s Common Shares, Special Common Shares and Preferred Shares to reinvest cash dividends in Common Shares and Special Common Shares and holders of Series A Common Shares to reinvest cash dividends in Series A Common Shares. The purchase price of the shares is 95% of the market value, based on the average of the daily high and low sales prices for TDS s Common Shares and Special Common Shares on the American Stock Exchange for the ten trading days preceding the date on which the purchase is made.

Employee Stock Purchase Plan

TDS had reserved 195,000 Common Shares and 320,000 Special Common Shares at December 31, 2005, under the 2003 Employee Stock Purchase Plan, which will terminate on December 31, 2008. The plans allow eligible employees of TDS and its subsidiaries to purchase a limited number of TDS Common Shares and Special Common Shares on a quarterly basis. The per share cost to each participant is at 85% of the market value of the Common Shares and Special Common Shares as of the issuance date. Effective January 1, 2006, the plan only allows the purchase of Special Common Shares.

Stock-Based Compensation Plans

TDS accounts for stock options, restricted stock awards and employee stock purchase plans under APB Opinion No. 25. No compensation expense was recognized for options granted in 2005 and 2004. TDS recorded compensation expense of $0.3 million on 53,000 options granted in 2003. No compensation expense was recognized for the remaining 615,000 options granted in 2003. No compensation expense was recognized for the employee stock purchase plans in 2005, 2004 and

2003. Compensation expense was recognized for restricted stock awards as expenses in the Consolidated Statements of Operations.

TDS had reserved 4,028,000 Common Shares and 11,916,000 Special Common Shares at December 31, 2005, for options granted and to be granted to key employees. TDS has established certain plans that provide for the grant of stock options to officers and employees. The options are exercisable over a specified period not in excess of ten years. Options vest from three months to four years from the date of grant. The options expire from 2006 to 2015 or three months after the date of the employee s termination of employment, if earlier. Employees who leave at the age of retirement have one year within which to exercise their stock options.

A summary of the status of TDS stock option plans at December 31, 2005, 2004 and 2003 and changes during the years then ended is presented in the table and narrative that follows:

All TDS options were granted prior to the distribution of the TDS Special Common Stock Dividend of 2005. As a result of the Special Common Stock Dividend, an employee will receive one Common Share and one Special Common Share per tandem option exercised. Each tandem option is exercisable at its original exercise price.

	Number of Tandem Options (1)	**Weighted Average Option Prices**	**Weighted Average Black-Scholes Values of Option Grants**
Stock options:			
Outstanding December 31, 2002 (1,355,000 exercisable)	1,797,000	$ 75.24	
Granted	668,000	45.80	$ 17.24
Exercised	(49,000)	43.51	
Canceled	(63,000)	82.66	
Outstanding December 31, 2003 (1,762,000 exercisable)	2,353,000	$ 67.32	
Granted	547,000	65.98	$ 25.73
Exercised	(518,000)	49.08	
Canceled	(51,000)	77.07	
Outstanding December 31, 2004 (1,791,000 exercisable)	2,331,000	$ 70.76	
Granted	630,000	77.63	$ 23.78
Exercised	(228,000)	51.91	
Canceled	(32,000)	83.71	
Outstanding December 31, 2005 (2,461,000 exercisable)	2,701,000	73.86	

(1) Upon exercise, each tandem option is converted into one TDS Common Share and one TDS Special Common Share.

At December 31, 2005, 2,461,000 tandem options were exercisable, have exercise prices between $33.87 and $127.00 and a weighted average exercise price of $75.57. The weighted average exercise price of tandem options exercisable at December 31, 2004 and 2003 was $75.04 and $70.68, respectively.

The following table provides certain details concerning TDS stock options outstanding at December 31, 2005:

Range of Exercise Prices	**Tandem Stock Options Outstanding**	**Weighted Average Exercise Price**	**Weighted Average Contractual Life Remaining (Years)**
$33.87 - $49.99	463,000	$ 42.76	4.7
$50.00 - $74.99	945,000	$ 62.22	7.4
$75.00 - $99.99	787,000	$ 81.92	8.5
$100.00 - $127.00	506,000	$ 111.53	4.5

The following table provides certain details concerning TDS stock options exercisable at December 31, 2005:

Range of Exercise Prices	**Tandem Stock Options Exercisable**	**Weighted Average Exercise Price**
$33.87 - $49.99	362,000	$ 42.67
$50.00 - $74.99	805,000	$ 61.57
$75.00 - $99.99	787,000	$ 81.92
$100.00 - $127.00	506,000	$ 111.53

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2005, 2004 and 2003, respectively: risk-free interest rates of 3.8%, 4.5% and 3.7%; expected dividend yields of 0.9%, 1.0% and 1.4%; expected lives of 4.9 years, 7.3 years and 8.6 years, and expected volatility of 30.8%, 31.8% and 31.7%.

In April 2005, TDS initiated a program granting shares of restricted stock to key employees. The shares will fully vest in December 2007. There were 91,158 shares granted in 2005. All restricted stock was granted prior to the TDS Special Common Share dividend; when fully vested, employees will receive 91,158 shares of TDS Common Shares and 91,158 shares of TDS Special Common Shares. The combined weighted-average value of the shares when granted was $77.63. The expense included in operating income due to grants of restricted stock was $1.9 million for the year ended December 31, 2005.

U.S. Cellular has granted key employees restricted shares of stock that fully vest after three years. The number of shares granted was 219,000, 86,000 and 142,000 in the years 2005, 2004 and 2003, respectively. The weighted-average values of the shares granted were $45.63, $38.65 and $23.70 in 2005, 2004 and 2003, respectively. Compensation expense recognized with respect to grants of restricted shares was $5.7 million, $4.2 million and $2.8 million in 2005, 2004 and 2003, respectively.

U.S. Cellular has established stock option plans that provide for the grant of stock options to officers and employees and has reserved 5,518,000 Common Shares at December 31, 2005 for options granted and to be granted to key employees. The options under the plan are exercisable from the date of vesting through 2006 to 2015, or 30 days following the date of the employee s termination of employment, if earlier.

A summary of the status of U.S. Cellular s stock option plans at December 31, 2005, 2004 and 2003 and changes during the years then ended is presented in the table and narrative as follows:

	Number of Options	Weighted Average Option Prices	Weighted Average Black-Scholes Values of Option Grants
Stock options:			
Outstanding December 31, 2002 (336,000 exercisable)	1,543,000	$ 45.15	
Granted	1,435,000	23.85	$ 10.99
Exercised	(2,000)	24.37	
Canceled	(448,000)	40.18	
Outstanding December 31, 2003 (496,000 exercisable)	2,528,000	$ 33.87	
Granted	796,000	37.46	$ 16.27
Exercised	(220,000)	27.26	
Canceled	(248,000)	32.97	
Outstanding December 31, 2004 (883,000 exercisable)	2,856,000	$ 35.44	
Granted	760,000	45.68	$ 13.38
Exercised	(693,000)	33.10	
Canceled	(263,000)	44.15	
Outstanding December 31, 2005 (818,000 exercisable)	2,660,000	$ 38.20	

At December 31, 2005, 818,000 stock options were exercisable, have exercise prices between $23.20 and $73.31 and a weighted average exercise price of $39.38. The weighted average exercise price of options exercisable at December 31, 2004 and 2003, was $41.33 and $46.22, respectively.

The following table provides certain details concerning U.S. Cellular stock options outstanding at December 31, 2005:

Range of Exercise Prices	Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining (Years)
$23.20 - $36.99	957,000	$ 26.22	7.2
$37.00 - $49.99	1,540,000	$ 42.79	8.1
$50.00 - $73.31	163,000	$ 64.26	5.3

The following table provides certain details concerning U.S. Cellular stock options exercisable at December 31, 2005:

Range of Exercise Prices	Stock Options Exercisable	Weighted Average Exercise Price
$23.20 - $36.99	312,000	$ 26.15
$37.00 - $49.99	373,000	$ 41.46
$50.00 - $73.31	133,000	$ 64.64

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2005, 2004 and 2003, respectively: risk-free interest rates of 3.9%, 3.6% and 3.7%; expected dividend yield of zero for all years; expected lives of 3.0 years, 6.6 years and 9.3 years, and expected volatility of 36.5%, 36.0% and 29.4%.

20 EMPLOYEE BENEFIT PLANS

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 costs are calculated separately for each participant and are funded currently. Total pension costs were $13.4 million, $12.3 million and $12.1 million in 2005, 2004 and 2003, respectively.

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

Other Post-Retirement Benefits

TDS sponsors two defined benefit post-retirement plans that cover most of the employees of TDS Corporate, TDS Telecom and the subsidiaries of TDS Telecom. One plan provides medical benefits and the other provides life insurance benefits. Both plans are contributory, with retiree contributions adjusted annually. The medical plan anticipates future cost sharing changes that reflect TDS s intent to increase retiree contributions as a portion of total cost.

Total accumulated contributions to fund the costs of future retiree medical benefits are restricted to an amount not to exceed 25 percent of the total accumulated contributions to the pension trust. An additional contribution equal to a reasonable amortization of the past service cost may be made without regard to the 25 percent limitation.

The following table reconciles the beginning and ending balances of the benefit obligation and the fair value of plan assets for the other post-retirement benefit plans.

December 31,	2005	2004
	(Dollars in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$ 46,880	$ 43,154
Service cost	2,212	2,362
Interest cost	2,636	2,674
Amendments		(4,425)
Actuarial loss	2,082	4,764
Benefits paid	(2,425)	(2,265)
Special termination benefits (1)		616
Benefit obligation at end of year	51,385	46,880
Change in plan assets		
Fair value of plan assets at beginning of year	23,279	16,442
Actual return on plan assets	1,732	2,084
Employer contribution	5,481	7,018
Benefits paid	(2,425)	(2,265)
Fair value of plan assets at end of year	28,067	23,279
Funded status	(23,318)	(23,601)
Unrecognized net actuarial loss	22,657	24,281
Unrecognized prior service cost	(7,002)	(10,989)
(Accrued) benefit cost	$ (7,663)	$ (10,309)

(1) Due to an early retirement incentive program that was offered to certain employees at TDS Telecom during 2003.

Net periodic benefit cost for the years ended December 31, 2005, 2004 and 2003 includes the following components.

Year Ended December 31,	**2005**	**2004**	**2003**
	(Dollars in thousands)		
Service cost	$ 2,212	$ 2,362	$ 1,676
Interest cost on accumulated post-retirement benefit obligation	2,636	2,674	2,480
Expected return on plan assets	(2,231)	(1,776)	(1,197)
Amortization of:			
Unrecognized prior service cost (1)	(1,117)	(715)	(128)
Unrecognized net loss (gain) (2)	1,153	949	494
Net post-retirement (income) cost	$ 2,653	$ 3,494	$ 3,325

(1) Based on straight-line amortization over the average time remaining before active employees become fully eligible for plan benefits.

(2) Based on straight-line amortization over the average time remaining before active employees retire.

The following assumptions were used to determine benefit obligations and net periodic benefit cost.

December 31,	**2005**	**2004**
Discount rate	5.50 %	5.75 %
Expected return on plan assets	8.5 %	8.5 %

In determining the discount rate, TDS considered the Moody s Aa Corporate Bond Index and actuarial bond yield curves that matched the expected timing and cash flows of TDS s benefit payments. TDS determined that the Moody s Aa Corporate Bond Index rate adequately matched the expected timing and cash flows of TDS s benefit payments, and that no adjustments were needed.

The measurement date for actuarial determination was December 31, 2005. For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits was assumed for 2005 to be 12% for plan participants aged 65 and above, and 10% for participants under age 65. A single rate of 12% was assumed for 2004. For participants aged 65 and above, the 2005 annual rate of increase is expected to remain at 12% in 2006 and then decrease to 5.0% by 2011. For participants under age 65, the 2005 annual rate of increase is expected to remain at 10% in 2006 and then decrease to 5.0% by 2011. The 2004 annual rate of increase was expected to reduce to 10.9% in 2005 and then decrease to 5.25% by 2010 for all participants.

The health care cost trend rate assumption has a significant effect on the amounts reported. A one percentage point increase or decrease in assumed health care cost trend rates would have the following effects.

	One Percentage Point	
	Increase	**Decrease**
	(Dollars in thousands)	
Effect on total of service and interest cost components	$ 930	$ (778)
Effect on post-retirement benefit obligation	$ 7,460	$ (6,514)

The following table describes how plan assets are invested.

Investment Category	**Target Asset Allocation**	**Allocation of Plan Assets At December 31, 2005**	**2004**
U.S. Equities	50 %	52.2 %	49.8 %
International Equities	15 %	15.4 %	15.1 %
Debt Securities	35 %	32.4 %	35.1 %

The post-retirement benefit fund engages multiple asset managers to ensure proper diversification of the investment portfolio within each asset category. The investment objective is to exceed the rate of return of a performance index comprised of 50% Wilshire 5000 Stock Index, 15% MSCI World (excluding U.S.) Stock Index, and 35% Lehman Brothers Aggregate Bond Index. Historical average annual rates of return for this index exceed 8.5%, the expected rate of return used for planning.

The post-retirement benefit fund does not hold any debt or equity securities issued by TDS, U.S. Cellular or any related parties.

TDS is not required to set aside current funds for its future retiree health and life insurance benefits. The decision to contribute to the plan assets is based upon several factors, including the funded status of the plan, market conditions, alternative investment opportunities, tax benefits and other circumstances. TDS expects to fund $5.3 million in 2006 for the 2005 contribution to the plan.

The following estimated future benefit payments, which reflect expected future service, are expected to be paid:

Year	**Post-retirement Insurance Paid (Dollars in thousands)**
2006	$ 2,387
2007	2,525
2008	2,504
2009	2,623
2010	2,686
2011-2015	$ 15,056

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was enacted. The Act expanded Medicare coverage, primarily by adding a prescription drug benefit for Medicare-eligible participants starting in 2006. The Act provided employers currently sponsoring prescription drug programs for Medicare-eligible participants with a range of options for coordinating with the new government-sponsored program to potentially reduce employers costs. One alternative allowed employers to receive a subsidy from the federal government for all retirees enrolled in the employer-sponsored prescription drug plan. Prior to the release of final regulations on the Medicare prescription drug benefit, the actuarial equivalence of the TDS retiree medical plan had been indeterminable and the company had communicated its intention to coordinate the plan s benefits with those of Medicare (through a wrap-around approach). This coordination approach led to a reduction in the plan s accumulated postretirement benefit obligation as of December 31, 2004 of $3.1 million. Final regulations released by the Centers for Medicare and Medicaid Services (CMS) in 2005, along with additional guidance issued through-out 2005, led to a final determination that the plan would qualify for the government subsidy. After an evaluation of the options available, TDS determined that the most beneficial option would be to accept the direct subsidy from the federal government. During the fourth quarter of 2005, TDS notified its employees of this decision and applied for the federal subsidy. The effects of the subsidy have been included in TDS s remeasurement of its accumulated postretirement benefit obligation and have resulted in an additional reduction in accumulated postretirement benefit obligation of $11.6 million as of December 31, 2005.

A reduction in the company s FAS No. 106 net periodic postretirement benefit cost due to anticipated receipt of the federal subsidy will be recognized beginning in fiscal 2006. Receipt of the subsidy is expected to reduce the company s fiscal 2006 FAS 106 net periodic postretirement benefit cost by approximately $1.9 million.

21 COMMITMENTS AND CONTINGENCIES

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 impact the statement of operations, financial position and statement of cash flows.

Capital Expenditures

U.S. Cellular s anticipated capital expenditures for 2006 primarily reflect plans for construction, system expansion and the buildout of certain of its personal communication service licensed areas. U.S. Cellular plans to finance its construction program using internally generated cash and short-term financing. U.S. Cellular s estimated capital spending for 2006 is $580 million to $610 million. These expenditures 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.

TDS Telecom s estimated capital spending for 2006 is $125 million to $140 million. The incumbent local exchange companies are expected to spend $105 million to $120 million to provide for normal growth and to upgrade plant and equipment to provide enhanced services. The competitive local exchange companies are expected to spend approximately $20 million primarily to build switching and transmission facilities to meet the needs of a growing customer base. TDS Telecom plans to finance its construction program using primarily internally generated cash.

Lease Commitments

TDS and its subsidiaries have leases for certain plant facilities, office space, retail sites, cell sites and data processing equipment, most of which are classified as operating leases. Certain leases have renewal options and/or fixed rental increases. Renewal options that are reasonably assured of exercise are included in determining the lease term. For the years 2005, 2004 and 2003, rent expense for noncancelable, long-term leases was $121.6 million, $111.8 million and $101.4 million, respectively, and rent expense under cancelable, short-term leases was $15.0 million, $11.5 million and $3.5 million, respectively. Rental revenue totaled $15.4 million, $12.0 million and $10.4 million in 2005, 2004 and 2003, respectively. At December 31, 2005, the aggregate minimum rental payments required and rental receipts expected under noncancelable, long-term operating leases were as follows:

	Minimum Future Rental Payments (Dollars in thousands)	Minimum Future Rental Receipts
2006	$ 110,014	$ 14,609
2007	92,791	12,526
2008	78,402	11,178
2009	60,558	8,960
2010	47,858	4,115
Thereafter	$ 267,443	$ 408

Indemnifications

TDS enters into agreements in the normal course of business that provide for indemnification of counterparties. These agreements include certain asset sales and financings with other parties. The 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 USA, Inc. (T-Mobile) regarding certain contingent liabilities at Aerial Communications, Inc. (Aerial) for the period prior to Aerial s merger with VoiceStream Wireless. In 2005, TDS paid $7.1 million on behalf of Aerial. As of December 31, 2005, TDS had a liability balance of $4.3 million relating to this indemnity, which represents its best estimate of its probable liability.

Legal Proceedings

TDS is involved in a number of legal proceedings before the FCC and various state and federal courts. 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.

22 DISCONTINUED OPERATIONS

TDS is party to an indemnity agreement with T-Mobile (f/k/a VoiceStream Wireless) regarding certain contingent liabilities at Aerial Communications for the period prior to Aerial s merger into VoiceStream Wireless Corporation in 2000.

In 2005, TDS paid $7.1 million including expenses related to settlement of items related to this indemnity which is recorded in Discontinued operations on the Consolidated Statements of Cash Flows.

In 2005, TDS recorded a gain of $1.0 million ($1.5 million, net of a $0.5 million income tax expense), or $0.01 per diluted share, for discontinued operations relating to a reduction in this indemnity accrual due to the favorable outcomes of a state tax audits which reduced the potential indemnity obligation. This amount was recorded as Discontinued operations in the Consolidated Statements of Operations.

In 2004, TDS recorded a gain of $6.4 million ($10.2 million, net of income tax benefit of $3.8 million), or $0.05 per diluted share for a reduction in the indemnity accrual. The accrual was reduced due to favorable outcomes of federal and state tax audits which reduced the potential indemnity obligation, recorded as Discontinued operations in the Consolidated Statements of Operations.

During 2003, it was estimated that the indemnity for certain contingent liabilities would be greater than previously provided. TDS took an additional charge of $2.8 million ($1.6 million, net of income tax expense of $1.2 million), or $(0.01) per diluted share with respect to the additional liability, recorded as discontinued operations in the Statements of Operations.

23 SUBSEQUENT EVENTS

U.S. Cellular owns approximately 14% of Midwest Wireless Communications, LLC, which holds FCC licenses and operates certain wireless markets in southern Minnesota. U.S. Cellular accounts for this interest using the equity method. This interest is convertible into an interest of approximately 11% in Midwest Wireless Holdings, LLC, a privately-held wireless telecommunications company that controls Midwest Wireless Communications. Midwest Wireless Holdings, through other subsidiaries, also holds FCC licenses and operates certain wireless markets in northern and eastern Iowa and western Wisconsin.

On November 18, 2005, ALLTEL announced that it had entered into a definitive agreement to acquire Midwest Wireless Holdings for $1.075 billion in cash, subject to certain conditions, including approval by the FCC, other governmental authorities and the members of Midwest Wireless Holdings. U.S. Cellular received a letter dated December 15, 2005, from Midwest Wireless Holdings purporting to constitute notice pursuant to certain tag-along rights and drag-along rights under certain agreements relating to U.S. Cellular s interest in Midwest Wireless Communications.

By letter dated December 30, 2005, Midwest Wireless Holdings was advised on behalf of U.S. Cellular that U.S. Cellular was entitled to exercise certain rights of first refusal with respect to Midwest Wireless Holdings interest in Midwest Wireless Communications and demanded that Midwest Wireless Holdings take all steps to afford U.S. Cellular its rights of first refusal. On January 12, 2006, U.S. Cellular filed a lawsuit against Midwest Wireless Holdings and Midwest Wireless Communications seeking, among other things, to enforce such rights. On January 25, 2006, Midwest Wireless Holdings and Midwest Wireless Communications filed an answer denying U.S. Cellular s claims, alleging counterclaims of breach of contract and tortious interference with contractual relations and asking for declaratory relief and unspecified damages and costs. A trial on the merits of U.S. Cellular s claim to be entitled to first refusal rights was held from May 10-12, 2006. On June 7, 2006, the court denied U.S. Cellular s right of first refusal. As a result of the court's ruling the counterclaims have been rendered moot.

On January 31, 2006, U.S. Cellular also filed a petition to deny the FCC license transfer of control applications filed by ALLTEL and Midwest Wireless Holdings seeking FCC consent to their transaction. That petition is pending.

Although U.S. Cellular will not be afforded its rights of first refusal as a result of the foregoing court decision, U.S. Cellular will be entitled to receive approximately $102.7 million in cash in consideration with respect to its interest in Midwest Wireless Communications upon the closing of the acquisition of Midwest Wireless Holdings by ALLTEL. This closing is subject to FCC approval, antitrust review under the Hart Scott Rodino Act and other conditions.

In addition, U.S. Cellular owns 49% of an entity, accounted for under the equity method, which owns approximately 2.9% of Midwest Wireless Holdings. If the transaction with ALLTEL occurs, this entity will receive cash in consideration for its interest in Midwest Wireless Holdings. Following that, this entity will be dissolved and U.S. Cellular will be entitled to receive approximately $11.4 million in cash.

The net aggregate carrying value of U.S. Cellular s investments in Midwest Wireless Communications and Midwest Wireless Holdings was approximately $21.2 million at December 31, 2005.

U.S. Cellular is a limited partner in Barat Wireless, L.P. (Barat Wireless), an entity which may participate in the auction of wireless spectrum designated by the FCC as Auction 66, which is scheduled to begin in August 2006. Barat Wireless intends to qualify as a designated entity and be eligible for discounts with respect to spectrum purchased in Auction 66.

Barat Wireless is in the process of developing its long-term business and financing plans. As of July 14, 2006, U.S. Cellular has made capital contributions and advances to Barat Wireless and/or its general partner of $79.9 million to provide initial funding of Barat Wireless participation in Auction 66. U.S. Cellular will consolidate Barat Wireless and Barat Wireless, Inc., the general partner of Barat

Wireless, for financial reporting purposes, pursuant to the guidelines of FASB Interpretation No. 46R (FIN 46R), as U.S. Cellular anticipates absorbing a majority of Barat Wireless expected gains or losses. Pending finalization of Barat Wireless permanent financing plan, and upon request by Barat Wireless, U.S. Cellular may agree to make additional capital contributions and advances to Barat Wireless and/or its general partner.

In April 2006, an interexchange carrier for which TDS Telecom provides both originating and terminating access asserted a claim for refund, net of counterclaims, of up to $10 million for past billed amounts for certain types of traffic. TDS Telecom believes its billing methods and procedures were appropriate under the terms of its state and federal tariffs and will contest this claim.

TDS Telecom has in the past obtained financing from the RTB. In connection with such financings, TDS Telecom purchased stock in the RTB. TDS Telecom has repaid all of its debt to the RTB, but continued to own the RTB stock. In August 2005, the board of directors of the RTB approved resolutions to liquidate and dissolve the RTB. In order to effect the dissolution and liquidation, shareholders were asked to remit their shares to receive cash compensation for those shares. TDS Telecom remitted its shares and received $101.7 million from the RTB in the second quarter of 2006. TDS Telecom s book basis in the RTB stock was approximately $9.1 million.

24 BUSINESS SEGMENT INFORMATION

TDS conducts substantially all of its wireless telephone operations through its 81.3%-owned subsidiary, U.S. Cellular. At December 31, 2005, U.S. Cellular provided cellular telephone service in 26 states to 5.5 million customers. TDS conducts its wireline telephone operations through its wholly owned subsidiary, TDS Telecommunications Corporation (TDS Telecom). TDS Telecom provides service through local telephone operations, or incumbent local exchange carrier companies and through competitive local exchange carrier companies. At December 31, 2005, TDS Telecom operated 111 incumbent local exchange telephone companies serving 735,300 equivalent access lines in 28 states, and a competitive local exchange carriers serving 448,600 equivalent access lines in five states.

U.S. Cellular and TDS Telecom are billed for all services they receive from TDS, consisting primarily of information processing and general management services. Such billings are based on expenses specifically identified to U.S. Cellular and TDS Telecom and on allocations of common expenses. Management believes the method used to allocate common expenses is reasonable and that all expenses and costs applicable to U.S. Cellular and TDS Telecom are reflected in the accompanying business segment information on a basis that is representative of what they would have been if U.S. Cellular and TDS Telecom operated on a stand-alone basis.

Financial data for TDS s business segments for each of the years ended December 31, 2005, 2004 and 2003 are as follows:

Year Ended or at December 31, 2005	U.S. Cellular	TDS Telecom ILEC	TDS Telecom CLEC	Non-Reportable Segment (3)	Other Reconciling Items (1)	Total
	(Dollars in thousands)					
Operating revenues	$ 3,035,887	$ 669,724	$ 241,310	$ 32,080	$ (18,932)	$ 3,960,069
Cost of services and products	1,114,299	183,921	102,580	22,131	(2,616)	1,420,315
Selling, general and administrative expense	1,212,874	181,692	114,531	5,714	(5,847)	1,508,964
Operating income before depreciation, amortization and accretion and (gain) loss on sales of assets and impairments (2)	708,714	304,111	24,199	4,235	(10,469)	1,030,790
Depreciation, amortization and accretion expense	509,072	135,178	30,438	2,755		677,443
(Gain) loss on sales of assets	(44,660)					(44,660)
Operating income (loss)	244,302	168,933	(6,239)	1,480	(10,469)	398,007
Significant noncash items:						
Investment income	68,433	408			912	69,753
Marketable equity securities	225,387				2,306,303	2,531,690
Investment in unconsolidated entities	170,337	3,623			41,464	215,424
Total assets	5,434,029	1,673,395	163,361	17,189	3,116,591	10,404,565
Capital expenditures	$ 586,575	$ 97,493	$ 27,117	$ 3,950	$ 5,422	$ 720,557

Year Ended or at December 31, 2004	U.S. Cellular (Dollars in thousands)	TDS Telecom ILEC	TDS Telecom CLEC	Non-Reportable Segment (3)	Other Reconciling Items (1)	Total
Operating revenues	$ 2,808,201	$ 658,330	$ 226,259	$ 27,269	$ (16,139)	$ 3,703,920
Cost of services and products	1,049,295	166,262	92,045	18,044	(1,718)	1,323,928
Selling, general and administrative expense	1,088,181	177,225	124,623	5,110	(14,421)	1,380,718
Operating income before depreciation, amortization and accretion and (gain) loss on sales of assets and impairments (2)	670,725	314,843	9,591	4,115		999,274
Depreciation, amortization and accretion expense	498,202	131,665	38,349	2,515		670,731
Loss on impairment of intangible assets			29,440			29,440
(Gain) loss on sales of assets	(10,806)					(10,806)
Loss on impairment of long-lived assets			87,910			87,910
Operating income (loss)	183,329	183,178	(146,108)	1,600		221,999
Significant noncash items:						
Investment income	63,758	958			184	64,900
Gain (loss) on investments	25,791	12,909			(491)	38,209
Marketable equity securities	282,829				3,115,975	3,398,804
Investment in unconsolidated entities	155,519	19,721			24,278	199,518
Total assets	5,179,976	1,775,968	154,287	26,992	3,875,380	11,012,603
Capital expenditures	$ 656,243	$ 103,069	$ 35,178	$ 7,394	$ 4,885	$ 806,769

Year Ended or at December 31, 2003	U.S. Cellular (Dollars in thousands)	TDS Telecom ILEC	TDS Telecom CLEC	Non-Reportable Segment (3)	Other Reconciling Items (1)	Total
Operating revenues	$ 2,577,754	$ 653,038	$ 213,800	$ 26,745	$ (16,163)	$ 3,455,174
Cost of services and products	933,428	165,135	86,377	17,870	(1,832)	1,200,978
Selling, general and administrative expense	1,007,599	180,372	115,354	4,859	(14,331)	1,293,853
Operating income before depreciation, amortization and accretion and loss on sales of assets and impairments (2)	636,727	307,531	12,069	4,016		960,343
Depreciation, amortization and accretion expense	432,499	130,036	33,363	2,438		598,336
Loss on impairment of intangible assets	49,595					49,595
(Gain) loss on sales of assets	45,908					45,908
Loss on impairment of long-lived assets		351	4,563			4,914
Operating income (loss)	108,725	177,144	(25,857)	1,578		261,590
Significant noncash items:						
Investment income	51,088	875			216	52,179
(Loss) on investments	(5,200)	(5,000)				(10,200)
Marketable equity securities	260,188				2,512,222	2,772,410
Investment in unconsolidated entities	166,862	19,606			24,710	211,178
Total assets	4,954,718	1,807,116	238,130	22,294	3,187,590	10,209,848
Capital expenditures	$ 630,864	$ 111,924	$ 27,294	$ 732	$ 5,223	$ 776,037

Year Ended December 31,	2005 (Dollars in thousands)	2004	2003
Total operating income from reportable and other segments	$ 398,007	$ 221,999	$ 261,590
Investment and other income and expense	(1,868)	(73,386)	(139,830)
Income from continuing operations before income taxes and minority interest	$ 396,139	$ 148,613	$ 121,760

(1) Consists of the Corporate operations, intercompany eliminations, TDS Corporate and TDS Telecom marketable equity securities and all other businesses.

(2) The amount of operating income before depreciation, amortization and accretion and (gain) loss on sales of assets and impairments 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.

Reports of Management

Management s Responsibility for Financial Statements

Management of Telephone and Data Systems, Inc. has the responsibility for preparing the accompanying consolidated financial statements and for their integrity and objectivity. The statements were prepared in accordance with accounting principles generally accepted in the United States of America, and in management s opinion are fairly presented. The financial statements include amounts that are based on management s best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the financial statements.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited these consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and has expressed herein their unqualified opinion on these financial statements.

/s/ LEROY T. CARLSON, JR.	/s/ SANDRA L. HELTON	/s/ D. MICHAEL JACK
LeRoy T. Carlson, Jr. President (Chief Executive Officer)	Sandra L. Helton Executive Vice President (Chief Financial Officer)	D. Michael Jack Senior Vice President and Controller (Principal Accounting Officer)

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. TDS s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. TDS s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the issuer s assets that could have a material effect on the interim or annual consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of TDS s management, including its Chief Executive Officer and Chief Financial Officer, TDS conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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. Management identified the following material weaknesses in internal control over financial reporting as of December 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 the financial reporting requirements and the complexity of TDS s operations and transactions. Further, TDS did not have a sufficient number of qualified personnel to create, communicate and apply accounting policies and procedures in compliance with accounting principles generally accepted in the United States of America (GAAP). This control deficiency contributed to the material weaknesses discussed in items 2, 3 and 4 below and the restatement of TDS s annual consolidated financial statements for 2004, 2003 and 2002, the interim consolidated financial statements for all quarters in 2004 and 2003, the interim consolidated financial statements for the first and second quarters of 2005, as well as adjustments, including audit adjustments, to the 2005 third quarter interim consolidated financial statements 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 consolidated financial statements for all quarters in 2004 and 2003, the interim consolidated financial statements for the first and second quarters of 2005, as well as adjustments, including audit adjustments, to the 2005 third quarter interim consolidated financial statements 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 the 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 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 consolidated financial statements for all quarters in 2004 and 2003, the interim consolidated financial statements for the first and second quarters of 2005, as well as adjustments, including audit adjustments, to the 2005 third quarter interim consolidated financial statements 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.

4. TDS did not maintain effective controls over the complete and accurate recording of leases. Specifically, effective controls were not designed and in place to ensure the accuracy of lease information, the use of appropriate lease terms including renewal option periods, calculation of rent expense on a straight-line basis for leases with escalation clauses and the complete and accurate accumulation of future lease commitments in conformity with GAAP. This control deficiency affected rent expense, deferred liabilities and related lease disclosures and resulted in an audit adjustment to the disclosure of future minimum rental payments reflected in 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.

As a result of these material weaknesses, management has determined that TDS did not maintain effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control Integrated Framework* issued by COSO.

Management has excluded the Kansas and Nebraska wireless markets (markets) acquired from a subsidiary of ALLTEL Corporation from its assessment of internal control over financial reporting as of December 31, 2005 because the markets were acquired by TDS in a purchase business combination during December 2005. The markets are wholly owned subsidiaries whose total assets and total revenues represent 1.7% and 0.1%, respectively, of the corresponding balances reflected in the consolidated financial statements as of and for the year ended December 31, 2005.

Management s assessment of the effectiveness of TDS s internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included herein.

/s/ LEROY T. CARLSON, JR.	/s/ SANDRA L. HELTON	/s/ D. MICHAEL JACK
LeRoy T. Carlson, Jr. President (Chief Executive Officer)	Sandra L. Helton Executive Vice President (Chief Financial Officer)	D. Michael Jack Senior Vice President and Controller (Principal Accounting Officer)

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Report of Independent Registered Public Accounting Firm

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS OF TELEPHONE AND DATA SYSTEMS, INC.:

We have completed integrated audits of Telephone and Data Systems, Inc. s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005 and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits and the report of other auditors, are presented below.

Consolidated financial statements

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations, common stockholders equity and cash flows present fairly, in all material respects, the financial position of Telephone and Data Systems, Inc. and its subsidiaries (the Company) at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Los Angeles SMSA Limited Partnership, a 5.5% owned entity accounted for by the equity method of accounting. The consolidated financial statements of Telephone and Data Systems, Inc. reflect an investment in this partnership of $108,400,000 and $94,700,000 as of December 31, 2005 and 2004, respectively, and equity earnings of $52,200,000, $41,800,000 and $29,900,000 for each of the three years in the period ended December 31, 2005. The financial statements of Los Angeles SMSA Limited Partnership as of December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005 were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Los Angeles SMSA Limited Partnership, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for asset retirement costs as of January 1, 2003.

Internal control over financial reporting

Also, we have audited management s assessment, included in Management s Report on Internal Control Over Financial Reporting appearing on page 112, that Telephone and Data Systems, Inc. did not maintain effective internal control over financial reporting as of December 31, 2005, because of the effects of (1) the Company 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 the Company s operations and transactions, (2) the Company did not maintain effective controls over its accounting for certain vendor contracts, (3) the Company did not maintain effective controls over the completeness, accuracy, presentation and disclosure of its accounting for income taxes, including the determination of income tax expense, income taxes payable, liabilities accrued for tax contingencies and deferred income tax assets and liabilities, and (4) the Company did not maintain effective controls over the complete and accurate recording of leases, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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. The following material weaknesses have been identified and included in management s assessment as of December 31, 2005:

1. The Company 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 the financial reporting requirements and the complexity of its operations and transactions. Further, the Company did not have a sufficient number of qualified personnel to create, communicate and apply accounting policies and procedures in compliance with accounting principles generally accepted in the United States of America (GAAP). This control deficiency contributed to the material weaknesses discussed in items 2, 3 and 4 below and the restatement of the Company s annual consolidated financial statements for 2004, 2003 and 2002, the interim consolidated financial statements for all quarters in 2004 and 2003, the interim consolidated financial statements for the first and second quarters of 2005, as well as adjustments, including audit adjustments, to the 2005 third quarter interim consolidated financial statements 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 the Company s interim or annual consolidated financial statements that would not be prevented or detected.

2. The Company 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 the Company s annual consolidated financial statements for 2004, 2003 and 2002, the interim consolidated financial statements for all quarters in 2004 and 2003, the interim consolidated financial statements for the first and second quarters of 2005, as well as adjustments, including audit adjustments, to the 2005 third quarter interim consolidated financial statements 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 the Company s interim or annual consolidated financial statements that would not be prevented or detected.

3. The Company did not maintain effective controls over the completeness, accuracy, presentation and disclosure of its accounting for income taxes, including the determination of income tax expense, income taxes payable, liabilities accrued for tax contingencies and deferred income tax assets and liabilities. Specifically, the Company did not have effective controls designed and in place to accurately calculate 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 the Company s annual consolidated financial statements for 2004, 2003 and 2002, the

interim consolidated financial statements for all quarters in 2004 and 2003, the interim consolidated financial statements for the first and second quarters of 2005, as well as adjustments, including audit adjustments, to the 2005 third quarter interim consolidated financial statements 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 the Company s interim or annual consolidated financial statements that would not be prevented or detected.

4. The Company did not maintain effective controls over the complete and accurate recording of leases. Specifically, effective controls were not designed and in place to ensure the accuracy of lease information, the use of appropriate lease terms including renewal option periods, calculation of rent expense on a straight-line basis for leases with escalation clauses and the complete and accurate accumulation of future lease commitments in conformity with GAAP. This control deficiency affected rent expense, deferred liabilities and related lease disclosures and resulted in an audit adjustment to the disclosure of future minimum rental payments reflected in 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 the Company s interim or annual consolidated financial statements that would not be prevented or detected.

These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the 2005 consolidated financial statements, and our opinion regarding the effectiveness of the Company s internal control over financial reporting does not affect our opinion on those consolidated financial statements.

As described in Management s Report on Internal Control Over Financial Reporting appearing on page 112, management has excluded the Kansas and Nebraska wireless markets acquired from a subsidiary of ALLTEL Corporation from its assessment of internal control over financial reporting as of December 31, 2005 because the markets were acquired by the Company in a purchase business combination during December 2005. The markets are wholly owned subsidiaries whose total assets and total revenues represent 1.7% and 0.1%, respectively, of the corresponding balances reflected in the consolidated financial statements as of and for the year ended December 31, 2005.

In our opinion, management s assessment that Telephone and Data Systems, Inc. did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. Also, in our opinion, because of the effects of the material weaknesses described above on the achievement of the objectives of the control criteria, Telephone and Data Systems, Inc. did not maintain effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
Chicago, Illinois
July 28, 2006

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Telephone and Data Systems, Inc. and Subsidiaries
CONSOLIDATED QUARTERLY INFORMATION (UNAUDITED)

	Quarter Ended March 31	June 30	September 30	December 31
	(Dollars in thousands, except per share amounts)			
2005				
Operating revenues	$ 935,787	$ 969,859	$ 1,028,751	$ 1,025,672
Operating income	78,844	107,327	107,774	104,062
Gain (loss) on investments	500			(5,400)
Income from continuing operations	23,049	97,056	41,226	60,216
Net income	$ 23,049	$ 97,056	$ 41,566	$ 60,873
Basic weighted average shares outstanding (000s) (2)	115,000	115,224	115,423	115,531
Basic earnings per share from continuing operations (2)	$ 0.20	$ 0.84	$ 0.36	$ 0.52
Discontinued operations (2)				0.01
Basic earnings per share net income (2)	$ 0.20	$ 0.84	$ 0.36	$ 0.53
Diluted weighted average shares outstanding (000s) (2)	115,646	115,959	116,212	116,189
Diluted earnings per share from continuing operations (2)	$ 0.20	$ 0.83	$ 0.36	$ 0.51
Discontinued operations (2)				0.01
Diluted earnings per share net income (2)	$ 0.20	$ 0.83	$ 0.36	$ 0.52
Stock price (2)				
TDS Common Shares				
High	$ 87.95	$ 82.90	$ 42.40	$ 39.45
Low	76.82	38.19	37.95	36.03
Quarter-end close	81.60	40.81	39.00	36.03
TDS Special Common Shares				
High	N/A	38.34	40.91	37.90
Low	N/A	35.87	36.45	34.52
Quarter-end close	N/A	38.34	37.55	34.61
Dividends paid (2)	$ 0.0875	$ 0.0875	$ 0.0875	$ 0.0875
2004				
Operating revenues	$ 870,098	$ 929,086	$ 964,416	$ 940,320
Operating income (loss) (1)	70,912	104,620	89,303	(42,836)
Gain (loss) on investments		(1,830)	(491)	40,530
Income from continuing operations	18,254	37,338	39,022	(34,124)
Net income (loss)	$ 18,254	$ 37,338	$ 43,373	$ (32,113)
Basic weighted average shares outstanding (000s) (2)	114,336	114,539	114,641	114,846
Basic earnings per share from continuing operations (2)	$ 0.16	$ 0.33	$ 0.34	$ (0.30)
Discontinued operations (2)			0.04	0.02
Basic earnings per share net income (loss) (2)	$ 0.16	$ 0.33	$ 0.38	$ (0.28)
Diluted weighted average shares outstanding (000s) (2)	114,849	115,049	115,267	114,846
Diluted earnings per share from continuing operations (2)	$ 0.16	$ 0.32	$ 0.33	$ (0.30)
Discontinued operations (2)			0.04	0.02
Diluted earnings per share net income (loss) (2)	$ 0.16	$ 0.32	$ 0.37	$ (0.28)
Stock price (2)				
TDS Common Shares				
High	$ 74.52	$ 72.42	$ 85.07	$ 85.25
Low	62.06	64.90	68.40	71.70
Quarter-end close	70.87	71.20	84.17	76.95
Dividends paid (2)	$ 0.0825	$ 0.0825	$ 0.0825	$ 0.0825

(1) Operating loss in the quarter ended December 31, 2004 includes loss on impairment of long-lived assets of $87.9 million and loss on impairment of intangible assets of $29.4 million. See Note 9 Property, Plant and Equipment and Note 5 Licenses and Goodwill for further discussions of the impairment losses.

(2) TDS s Special Common Shares were first issued in stock dividend on May 13, 2005. Earnings per share, weighted average shares outstanding and dividends have been retroactively adjusted to give effect to the stock dividend. TDS s Series A Common Shares and Preferred Shares are not actively traded and therefore, quotations are not reported for such securities. Dividends on TDS s Preferred Shares have been paid quarterly since the dates of issue. The high, low and closing sales prices of the Common Shares and the Special Common Shares on the AMEX are reported by the Dow Jones News Service. The stock price of the Common Shares in the quarter ended June 30, 2005 reflects a high of $82.90 and low of $38.19 due to the effect of the stock dividend on May 13, 2005.

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Telephone and Data Systems, Inc. and Subsidiaries
Five-Year Statistical Summary

Year Ended or at December 31,	2005	2004	2003	2002	2001
	(Dollars in thousands, except per share and per unit amounts)				
Wireless Operations					
Customers	5,482,000	4,945,000	4,409,000	4,103,000	3,461,000
Growth in customers from prior year-end					
Internal	477,000	627,000	447,000	310,000	354,000
Acquisitions (divestitures)	60,000	(91,000)	(141,000)	332,000	46,000
Total	537,000	536,000	306,000	642,000	400,000
Consolidated markets (a)	189	175	182	178	168
Average monthly service revenue per customer (b)	$ 45.32	$ 46.61	$ 47.29	$ 47.28	$ 46.26
Marketing cost per gross customer addition	$ 460	$ 403	$ 380	$ 365	$ 322
Post-pay churn rate per month	1.5 %	1.5 %	1.5 %	1.8 %	1.7 %
Capital expenditures	$ 586,575	$ 656,243	$ 630,864	$ 732,736	$ 503,399
Total population (c)	45,244,000	44,391,000	46,267,000	41,048,000	28,632,000
Wireline Operations					
Incumbent Local Exchange Carrier					
Equivalent access lines served (d)	735,300	730,400	722,200	711,200	678,300
Growth in equivalent access lines from prior year-end					
Internal	4,900	8,200	11,000	5,900	13,800
Acquisitions				27,000	44,900
Total	4,900	8,200	11,000	32,900	58,700
Telephone companies	111	111	111	111	109
Plant in service per equivalent access line (d)	$ 2,894	$ 2,832	$ 2,834	$ 2,745	$ 2,626
Capital expenditures	$ 97,493	$ 103,069	$ 111,924	$ 116,486	$ 99,866
Competitive Local Exchange Carrier					
Equivalent access lines served (d)	448,600	426,800	364,800	291,400	192,100
Capital expenditures	$ 27,117	$ 35,178	$ 27,294	$ 51,919	$ 96,950
Financial Position					
Common, Special Common and Series A Common Shares outstanding (000s)	115,555	114,872	114,068	117,354	117,139
Return on average equity (e)	6.8 %	1.9 %	1.5 %	(29.2)%	(4.2)%
Price/earnings ratio (f)	37.2	148.0	81.2	n/m	n/m
Common stockholders equity	$ 3,350,613	$ 3,196,196	$ 3,067,738	$ 3,047,565	$ 3,490,447
Common equity per share (g)	26.64	25.45	24.45	24.39	27.95
Total assets	10,404,565	11,012,063	10,209,848	9,692,025	8,097,122
Marketable equity securities	2,531,690	3,398,804	2,772,410	1,944,939	2,700,230
Long-term debt, excluding current portion	1,633,519	1,974,599	1,994,913	1,641,624	1,507,764
Forward contracts	1,707,282	1,689,644	1,672,762	1,656,616	
Year-end stock price (g)					
Common Shares	$ 36.03	$ 76.95	$ 62.55	$ 47.02	$ 89.75
Special Common Shares	34.61				
Combined	$ 70.64	$ 76.95	$ 62.55	$ 47.02	$ 89.75
Dividends per share (g)	$ 0.35	$ 0.33	$ 0.31	$ 0.29	$ 0.27

(a) Markets whose results are included in U.S. Cellular s consolidated operating results.

(b) The numerator of this calculation consists of service revenues for the respective 12-month period divided by 12. The denominator consists of the average number of U.S. Cellular wireless customers.

(c) Total population amounts are based on previous year Claritas estimates.

(d) An access line is a single or multi-party circuit between the customer s establishment and the central switching office. Access line equivalents are derived by converting high capacity data lines to the estimated equivalent number, in terms of capacity, of switched access lines. The statistics for competitive local exchange carrier have in the past been and continue to be reported using equivalent access lines.

(e) Return on average equity is calculated by dividing income (loss) from continuing operations by the average of beginning and ending common shareholders equity. Those amounts are taken from the Consolidated Statements of Operations and Balance Sheets. The result is shown as a percentage.

(f) Based on the year-end stock price divided by diluted earnings per share from Continuing Operations.

(g) The 2005 year-end stock price reflects the Special Common Share stock dividend issued May 13, 2005. Common stockholders equity per share and dividends per share have been retroactively adjusted for 2004-2001 to give effect to the stock dividend.

n/m = calculation not meaningful

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Selected Consolidated Financial Data

Year Ended or at December 31,	2005	2004	2003	2002	2001
	(Dollars in thousands, except per share amounts)				
Operating Data					
Operating revenues	$ 3,960,069	$ 3,703,920	$ 3,445,174	$ 3,012,547	$ 2,588,618
Operating income	398,007	221,999	261,590	386,281	435,277
Gain (loss) on investments	(4,900)	38,209	(10,200)	(1,888,391)	(548,305)
Income (loss) from continuing operations	221,547	60,490	45,519	(953,049)	(155,603)
Discontinued operations, net of tax	997	6,362	(1,609)		(24,092)
Cumulative effect of accounting change			(11,789)	(7,035)	
Net income (loss) available to common	$ 223,342	$ 66,649	$ 31,704	$ (960,511)	$ (180,153)
Basic weighted average shares outstanding (000s)	115,296	114,592	115,442	117,288	117,321
Basic earnings per share from:					
Continuing operations (d)	$ 1.92	$ 0.53	$ 0.38	$ (8.13)	$ (1.33)
Discontinued operations (d)	0.01	0.05	(0.01)		(0.21)
Cumulative effect of accounting change (d)			(0.10)	(0.06)	
Income (loss) available to common (d)	$ 1.93	$ 0.58	$ 0.27	$ (8.19)	$ (1.54)
Diluted weighted average shares outstanding (000s)	116,081	115,134	115,750	117,288	117,321
Diluted earnings per share from:					
Continuing operations (d)	$ 1.90	$ 0.52	$ 0.38	$ (8.13)	$ (1.33)
Discontinued operations (d)	0.01	0.05	(0.01)		(0.21)
Cumulative effect of accounting change (d)			(0.10)	(0.06)	
Income (loss) available to common (d)	$ 1.91	$ 0.57	$ 0.27	$ (8.19)	$ (1.54)
Dividends per Common, Special Common and Series A Common Share (d)	$ 0.35	$ 0.33	$ 0.31	$ 0.29	$ 0.27
Pro forma (a)					
Net income (loss)	N/A	N/A	$ 43,910	$ (962,633)	$ (181,665)
Basic earnings (loss) per share	N/A	N/A	0.38	(8.21)	(1.55)
Diluted earnings (loss) per share	N/A	N/A	$ 0.38	$ (8.21)	$ (1.55)
Balance Sheet Data					
Cash and cash equivalents	$ 1,095,791	$ 1,171,105	$ 940,578	$ 1,301,599	$ 141,594
Marketable equity securities	2,531,690	3,398,804	2,772,410	1,944,939	2,700,230
Property, plant and equipment, net	3,526,205	3,419,444	3,378,648	3,229,000	2,544,077
Total assets	10,404,565	11,012,603	10,209,848	9,692,025	8,097,122
Notes payable	135,000	30,000		461,792	265,300
Long-term debt (excluding current portion)	1,633,519	1,974,599	1,994,913	1,641,624	1,507,764
Prepaid forward contracts	1,707,282	1,689,644	1,672,762	1,656,616	
Common stockholders equity	3,350,613	3,196,196	3,067,738	3,047,565	3,490,447
Capital expenditures	$ 720,557	$ 806,769	$ 776,037	$ 918,127	$ 700,216
Current ratio (b)	1.7	2.5	2.2	1.7	0.8
Return on average equity (c)	6.8%	1.9%	1.5%	(29.2)%	(4.2)%

(a) Pro forma amounts reflect the effect of the retroactive application of the change in accounting principle for the adoption of Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations in 2003. Therefore, no pro forma amounts are required in 2004 or 2005.

(b) Current ratio is calculated by dividing current assets by current liabilities. These amounts are taken directly from the Consolidated Balance Sheets.

(c) Return on average equity is calculated by dividing income (loss) from continuing operations by the average of beginning and ending common shareholders equity. Those amounts are taken from the Consolidated Statements of Operations and Balance Sheets. The result is shown as a percentage.

(d) As discussed in Footnote 18 Common Shareholders Equity , TDS distributed 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 on May 13, 2005 to shareholders of record on April 29, 2005. Prior period earnings per share have been retroactively adjusted to give effect to the new capital structure.

TDS STOCK AND DIVIDEND INFORMATION

TDS s Common Shares are listed on the American Stock Exchange (AMEX) under the symbol TDS . TDS s Special Common Shares are listed on the AMEX under the symbol TDS.S . As of May 31, 2006, TDS Common Shares were held by 1,900 record owners, the Special Common Shares were held by 1,903, and the Series A Common Shares were held by 83 record owners. TDS distributed 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 on May 13, 2005 to shareholders of record on April 29, 2005.

TDS has paid cash dividends on its common stock since 1974, and paid dividends of $0.35 per Common, Special Common and Series A Common Share during 2005. The 2005 dividend amount reflects the Special Common Share dividend noted above as if the Special Common Shares were distributed on January 1, 2005. TDS paid dividends of $0.66 per Common and Series A Common Share during 2004.

The Common Shares of United States Cellular Corporation, an 81.3%-owned subsidiary of TDS, are listed on the AMEX under the symbol USM .

DIVIDEND REINVESTMENT PLAN

Our dividend reinvestment plan provides our common and preferred shareholders with a convenient and economical way to participate in the future growth of TDS. Common, Special Common and preferred shareholders of record owning ten (10) or more shares may purchase Common Shares (in the case of Common and Preferred shareholders) and Special Common Shares (in the case of Special Common shareholders) with their reinvested dividends at a five percent discount from market price. Shares may also be purchased, at market price, on a monthly basis through optional cash payments of up to $5,000 in any calendar quarter. The initial ten (10) shares cannot be purchased directly from TDS. An authorization card and prospectus will be mailed automatically by the transfer agent to all registered record holders with ten (10) or more shares. Once enrolled in the plan, there are no brokerage commissions or service charges for purchases made under the plan.

INVESTOR RELATIONS

Our annual report, Form 10-K, prospectuses and news releases are available free of charge upon request. These materials may be obtained either online through the Info Request feature of the Investor Relations section of TDS s web site (www.teldta.com), or by directly contacting TDS s Investor Relations Department at the address listed below.

Inquiries concerning lost, stolen or destroyed certificates, dividends, consolidation of accounts, transferring of shares, or name and address changes, should be directed to:

Telephone and Data Systems, Inc.
Julie Mathews
Manager Investor Relations
30 North LaSalle Street, Suite 4000
Chicago, IL 60602
312.592.5341
312.630.1908 (fax)
julie.mathews@teldta.com

Our annual report, filings with the Securities and Exchange Commission, news releases and other investor information is also available in the Investor Relations section of TDS s web site (www.teldta.com). General inquiries by investors, securities analysts and other members of the investment community should be directed to:

Telephone and Data Systems, Inc.
Mark Steinkrauss
Vice President Corporate Relations
30 North LaSalle Street, Suite 4000
Chicago, IL 60602
312.592.5384
312.630.1908 (fax)
mark.steinkrauss@teldta.com

DIRECTORS AND EXECUTIVE OFFICERS

See Election of Directors and Executive Officers sections of the Proxy Statement for the 2006 Annual Meeting.

PRINCIPAL COUNSEL

Sidley Austin LLP, Chicago, Illinois

TRANSFER AGENT

ComputerShare Investor Services
2 North LaSalle Street, 3rd Floor
Chicago, IL 60602
877.337.1575

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP

Visit TDS s web site at www.teldta.com

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Annual Meeting Proxy Card - Common

A **Proposal 1** **PLEASE REFER TO THE REVERSE SIDE FOR INTERNET VOTING INSTRUCTIONS.**

The Board of Directors Recommends a vote FOR the listed nominees.

1. Election of Directors	**For**	**Withhold**
01 - C. D. O Leary	O	O
02 - M. H. Saranow	O	O
03 - M. L. Solomon	O	O
04 - H. S. Wander	O	O

B **Proposal 2**

The Board of Directors recommends a vote FOR the following proposal.

	For	**Against**	**Abstain**
2. Ratify Accountants for 2006	O	O	O

3. In accordance with their discretion, to vote upon all other matters that may properly come before the Annual Meeting and any adjournment or postponement thereof, including matters incidental to the conduct of the meeting.

C **Authorized Signatures - Sign Here - This section must be completed for your instructions to be executed.**

Please note that if this voting instruction card is not properly completed and signed, or if it is not timely received by the designated tabulator, shares allocated to a participant s account for the TDS Tax-Deferred Savings Plan (401(k) Plan) will be voted as directed by the Investment Management Committee for the TDS 401(k) Plan, which shall act in the best interest of the Plan participants.

NOTE: Please sign your name(s) EXACTLY as your name(s) appear(s) on this proxy. All joint holders must sign. When signing as attorney, trustee, executor, administrator, guardian or corporate officer, please provide your FULL title.

Signature 1 - Please keep signature within the box	Signature 2 - Please keep signature within the box	Date (mm/dd/yyyy)

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Proxy - Telephone and Data Systems, Inc.

**Proxy for Common Shares Solicited on Behalf of the Board of Directors for the
Annual Meeting of the Shareholders of TELEPHONE AND DATA SYSTEMS, INC.
To Be Held September 12, 2006**

The undersigned hereby appoints Walter C.D. Carlson and LeRoy T. Carlson, Jr., or either of them acting in the absence of the other, with power of substitution, attorneys and proxies for and in the name and place of the undersigned, to vote the number of Common Shares that the undersigned would be entitled to vote if then personally present at the 2006 Annual Meeting of the Shareholders of Telephone and Data Systems, Inc., to be held on Tuesday, September 12, 2006, or at any adjournment or postponement thereof, as set forth in the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement.

The Board of Directors recommends a vote FOR the nominees in Proposal 1 and FOR Proposal 2.

This proxy, when properly executed, will be voted in the manner directed on the reverse side hereof. If no direction is made, this proxy will be voted FOR the nominees in Proposal 1 and FOR Proposal 2. If a nominee is unable to serve or for good cause will not serve, the persons named in this proxy shall have discretionary authority to vote for a substitute nominee if one is designated by the Board of Directors (unless authority to vote for nominees has been withheld).

Whether or not you are able to attend the Annual Meeting of Shareholders, it is important that your shares be represented. Accordingly, please complete and sign the proxy card, and mail the card in the enclosed postage paid envelope addressed to Telephone and Data Systems, Inc., c/o Computershare Investor Services.

(Continued and to be signed on Reverse Side)

Internet Voting Instructions

You can vote by Internet! Available 24 hours a day 7 days a week!

Instead of mailing your proxy, you may choose the voting method outlined below to vote your proxy.

Go to the following web site:
WWW.COMPUTERSHARE.COM/EXPRESSVOTE

Enter the information requested on your computer screen and follow the simple instructions.

If you vote by Internet, please DO NOT mail back this proxy card.

**Proxies submitted by the Internet must be received by 1:00 a.m., Central Time, on September 12, 2006.
THANK YOU FOR VOTING**

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Annual Meeting Proxy Card - Special Common

A **Proposal 1** **PLEASE REFER TO THE REVERSE SIDE FOR INTERNET VOTING INSTRUCTIONS.**

The Board of Directors Recommends a vote FOR the listed nominees.

1. Election of Directors	**For**	**Withhold**
01 - C. D. O Leary	O	O
02 - M. H. Saranow	O	O
03 - M. L. Solomon	O	O
04 - H. S. Wander	O	O

B **Authorized Signatures - Sign Here - This section must be completed for your instructions to be executed.**

Please note that if this voting instruction card is not properly completed and signed, or if it is not timely received by the designated tabulator, shares allocated to a participant s account for the TDS Tax-Deferred Savings Plan (401(k) Plan) will be voted as directed by the Investment Management Committee for the TDS 401(k) Plan, which shall act in the best interest of the Plan participants.

NOTE: Please sign your name(s) EXACTLY as your name(s) appear(s) on this proxy. All joint holders must sign. When signing as attorney, trustee, executor, administrator, guardian or corporate officer, please provide your FULL title.

Signature 1 - Please keep signature within the box	Signature 2 - Please keep signature within the box	Date (mm/dd/yyyy)

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Proxy - Telephone and Data Systems, Inc.

Proxy for Special Common Shares Solicited on Behalf of the Board of Directors for the Annual Meeting of the Shareholders of TELEPHONE AND DATA SYSTEMS, INC. To Be Held September 12, 2006

The undersigned hereby appoints Walter C.D. Carlson and LeRoy T. Carlson, Jr., or either of them acting in the absence of the other, with power of substitution, attorneys and proxies for and in the name and place of the undersigned, to vote the number of Special Common Shares that the undersigned would be entitled to vote if then personally present at the 2006 Annual Meeting of the Shareholders of Telephone and Data Systems, Inc., to be held on Tuesday, September 12, 2006, or at any adjournment or postponement thereof, as set forth in the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement.

The Board of Directors recommends a vote FOR the nominees in Proposal 1.

This proxy, when properly executed, will be voted in the manner directed on the reverse side hereof. If no direction is made, this proxy will be voted FOR the nominees in Proposal 1. If a nominee is unable to serve or for good cause will not serve, the persons named in this proxy shall have discretionary authority to vote for a substitute nominee if one is designated by the Board of Directors (unless authority to vote for nominees has been withheld).

Whether or not you are able to attend the Annual Meeting of Shareholders, it is important that your shares be represented. Accordingly, please complete and sign the proxy card, and mail the card in the enclosed postage paid envelope addressed to Telephone and Data Systems, Inc., c/o Computershare Investor Services.

(Continued and to be signed on Reverse Side)

Internet Voting Instructions

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Enter the information requested on your computer screen and follow the simple instructions.

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THANK YOU FOR VOTING

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Annual Meeting Proxy Card - Series A Common

A **Proposal 1**

PLEASE REFER TO THE REVERSE SIDE FOR INTERNET VOTING INSTRUCTIONS.

The Board of Directors recommends a vote FOR the listed nominees.

1. Election of Directors	For	Withhold		For	Withhold
01 - J. Barr III	o	o	05 - W. C. D. Carlson	o	o
02 - L. T. Carlson	o	o	06 - S. L. Helton	o	o
03 - L. T. Carlson, Jr.	o	o	07 - D. C. Nebergall	o	o
04 - L. G. Carlson	o	o	08 - G. W. Off	o	o

B **Proposal 2**

The Board of Directors recommends a vote FOR the following proposal.

	For	Against	Abstain
2. Ratify Accountants for 2006	o	o	o

3. In accordance with their discretion, to vote upon all other matters that may properly come before the Annual Meeting and any adjournment or postponement thereof, including matters incidental to the conduct of the meeting.

C Authorized Signatures - Sign Here - This section must be completed for your instructions to be executed.

NOTE: Please sign your name(s) EXACTLY as your name(s) appear(s) on this proxy. All joint holders must sign. When signing as attorney, trustee, executor, administrator, guardian or corporate officer, please provide your FULL title.

Signature 1 - Please keep signature within the box	Signature 2 - Please keep signature within the box	Date (mm/dd/yyyy)

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Proxy - Telephone and Data Systems, Inc.

Proxy for Series A Common Shares Solicited on Behalf of the Board of Directors for the Annual Meeting of the Shareholders of TELEPHONE AND DATA SYSTEMS, INC. To Be Held September 12, 2006

The undersigned hereby appoints Walter C.D. Carlson and LeRoy T. Carlson, Jr., or either of them acting in the absence of the other, with power of substitution, attorneys and proxies for and in the name and place of the undersigned, to vote the number of Series A Common Shares that the undersigned would be entitled to vote if then personally present at the 2006 Annual Meeting of the Shareholders of Telephone and Data Systems, Inc., to be held on Tuesday, September 12, 2006, or at any adjournment or postponement thereof, as set forth in the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement.

The Board of Directors recommends a vote FOR the nominees in Proposal 1 and FOR Proposal 2.

This proxy, when properly executed, will be voted in the manner directed on the reverse side hereof. If no direction is made, this proxy will be voted FOR the nominees in Proposal 1 and FOR Proposal 2. If a nominee is unable to serve or for good cause will not serve, the persons named in this proxy shall have discretionary authority to vote for a substitute nominee if one is designated by the Board of Directors (unless authority to vote for nominees has been withheld).

Whether or not you are able to attend the Annual Meeting of Shareholders, it is important that your shares be represented. Accordingly, please complete and sign the proxy card, and mail the card in the enclosed postage paid envelope addressed to Telephone and Data Systems, Inc., c/o Computershare Investor Services.

(Continued and to be signed on Reverse Side)

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WWW.COMPUTERSHARE.COM/EXPRESSVOTE

Enter the information requested on your computer screen and follow the simple instructions.

If you vote by Internet, please DO NOT mail back this proxy card.

Proxies submitted by the Internet must be received by 1:00 a.m., Central Time, on September 12, 2006.
THANK YOU FOR VOTING

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Annual Meeting Proxy Card - Preferred

A **Proposal 1**

PLEASE REFER TO THE REVERSE SIDE FOR INTERNET VOTING INSTRUCTIONS.

The Board of Directors recommends a vote FOR the listed nominees.

1. Election of Directors	For	Withhold		For	Withhold
01 - J. Barr III	O	O	05 - W. C. D. Carlson	O	O
02 - L. T. Carlson	O	O	06 - S. L. Helton	O	O
03 - L. T. Carlson, Jr.	O	O	07 - D. C. Nebergall	O	O
04 - L. G. Carlson	O	O	08 - G. W. Off	O	O

B **Proposal 2**

The Board of Directors recommends a vote FOR the following proposal.

	For	Against	Abstain
2. Ratify Accountants for 2006	O	O	O

3. In accordance with their discretion, to vote upon all other matters that may properly come before the Annual Meeting and any adjournment or postponement thereof, including matters incidental to the conduct of the meeting.

C Authorized Signatures - Sign Here - This section must be completed for your instructions to be executed.

NOTE: Please sign your name(s) EXACTLY as your name(s) appear(s) on this proxy. All joint holders must sign. When signing as attorney, trustee, executor, administrator, guardian or corporate officer, please provide your FULL title.

Signature 1 - Please keep signature within the box	Signature 2 - Please keep signature within the box	Date (mm/dd/yyyy)

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Proxy - Telephone and Data Systems, Inc.

Proxy for Preferred Shares Solicited on Behalf of the Board of Directors for the Annual Meeting of the Shareholders of TELEPHONE AND DATA SYSTEMS, INC. To Be Held September 12, 2006

The undersigned hereby appoints Walter C.D. Carlson and LeRoy T. Carlson, Jr., or either of them acting in the absence of the other, with power of substitution, attorneys and proxies for and in the name and place of the undersigned, to vote the number of Preferred Shares that the undersigned would be entitled to vote if then personally present at the 2006 Annual Meeting of the Shareholders of Telephone and Data Systems, Inc., to be held on Tuesday, September 12, 2006, or at any adjournment or postponement thereof, as set forth in the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement.

The Board of Directors recommends a vote FOR the nominees in Proposal 1 and FOR Proposal 2.

This proxy, when properly executed, will be voted in the manner directed on the reverse side hereof. If no direction is made, this proxy will be voted FOR the nominees in Proposal 1 and FOR Proposal 2. If a nominee is unable to serve or for good cause will not serve, the persons named in this proxy shall have discretionary authority to vote for a substitute nominee if one is designated by the Board of Directors (unless authority to vote for nominees has been withheld).

Whether or not you are able to attend the Annual Meeting of Shareholders, it is important that your shares be represented. Accordingly, please complete and sign the proxy card, and mail the card in the enclosed postage paid envelope addressed to Telephone and Data Systems, Inc., c/o Computershare Investor Services.

(Continued and to be signed on Reverse Side)

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WWW.COMPUTERSHARE.COM/EXPRESSVOTE

Enter the information requested on your computer screen and follow the simple instructions.

If you vote by Internet, please DO NOT mail back this proxy card.

Proxies submitted by the Internet must be received by 1:00 a.m., Central Time, on September 12, 2006.
THANK YOU FOR VOTING