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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended March 31, 2005 OR

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

For the transition period from to

Commission File Number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

30 North LaSalle Street, Chicago, Illinois 60602
(Address of principal executive offices) (Zip Code)

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

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

Yes o No ý

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

Yes ý No o

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

Yes o No ý

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

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

Explanatory Note

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TELEPHONE AND DATA SYSTEMS, INC.

1ST QUARTER REPORT ON FORM 10-Q/A

AMENDMENT NO. 1

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

	Three Months Ended March 31, 2005 (As Restated)	2004 (As Restated)
	(Dollars in thousands, except per share amounts)	
OPERATING REVENUES	$ 935,787	$ 870,098
OPERATING EXPENSES		
Cost of services and products (exclusive of depreciation, amortization and accretion expense shown below)	338,624	321,079
Selling, general and administrative expense	348,571	322,053
Depreciation, amortization and accretion expense	169,748	156,197
Gain on assets held for sale		(143)
Total Operating Expenses	856,943	799,186
OPERATING INCOME	78,844	70,912
INVESTMENT AND OTHER INCOME (EXPENSE)		
Investment income	14,754	14,127
Interest and dividend income	8,286	2,772
Interest expense	(51,856)	(46,821)
Gain on investments	500	
Other expense	(4,321)	(392)
Total Investment and Other Income (Expense)	(32,637)	(30,314)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	46,207	40,598
Income tax expense	17,395	18,730
INCOME BEFORE MINORITY INTEREST	28,812	21,868
Minority share of income	(5,763)	(3,614)
NET INCOME	23,049	18,254
Preferred dividend requirement	(50)	(50)
NET INCOME AVAILABLE TO COMMON	$ 22,999	$ 18,204
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	57,500	57,168
BASIC EARNINGS PER SHARE (Note 6)	$ 0.40	$ 0.32
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	57,823	57,424
DILUTED EARNINGS PER SHARE (Note 6)	$ 0.40	$ 0.32
DIVIDENDS PER SHARE	$ 0.175	$ 0.165

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

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

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

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

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TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

Unaudited

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

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS EQUITY

Unaudited

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

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

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accounting policies of Telephone and Data Systems, Inc. (TDS) conform to accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of TDS and its majority-owned subsidiaries, including TDS s 81.7%-owned wireless telephone subsidiary, United States Cellular Corporation (U.S. Cellular), TDS s 100%-owned wireline telephone subsidiary, TDS Telecommunications Corporation (TDS Telecom) and TDS s 80%-owned printing and distribution company, Suttle Straus, Inc. In addition, the consolidated financial statements include all entities in which TDS has a variable interest that requires TDS to absorb a majority of the entity s expected gains or losses. All material intercompany accounts and transactions have been eliminated.

The consolidated financial statements included herein have been prepared by TDS, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations, although TDS believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in TDS s latest annual report on Form 10-K/A (See discussion of Restatement below).

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items unless otherwise disclosed) necessary to present fairly the financial position as of March 31, 2005, and the results of operations for the three months ended March 31, 2005 and 2004 and the cash flows for the three months ended March 31, 2005 and 2004. The results of operations for the three months ended March 31, 2005, are not necessarily indicative of the results to be expected for the full year.

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

Restatement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Stock Dividend

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

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

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

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

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

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

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

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

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

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

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

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

3. Summary of Significant Accounting Policies

Other Postretirement Benefits

TDS sponsors two contributory defined benefit postretirement plans that cover most employees of TDS Corporate, TDS Telecom and the subsidiaries of TDS Telecom. One plan provides medical benefits and the other plan provides life insurance benefits.

Net periodic benefit costs for the defined benefit postretirement plans include the following components:

	Three Months Ended March 31,	
	2005	2004

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

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

Pension Plan

TDS sponsors a qualified noncontributory defined contribution pension plan. The plan provides benefits for the employees of TDS Corporate, TDS Telecom and U.S. Cellular. Under this plan, pension benefits and costs are calculated separately for each participant and are funded currently. Pension costs were $3.4 million and $3.1 million for the three months ended March 31, 2005 and March 31, 2004, respectively.

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

Stock-Based Compensation

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

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

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

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

Recent Accounting Pronouncements

Share-Based Payments

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

Conditional Asset Retirement Obligations

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

4. Income Taxes

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

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

N/M Not Meaningful

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

5. Earnings per Share

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

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

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

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

(1) The minority income adjustment reflects the additional minority share of U.S. Cellular s income computed as if all of U.S. Cellular s issuable securities were outstanding.

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

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

6. Marketable Equity Securities

TDS and its subsidiaries hold a substantial amount of marketable equity securities that are publicly traded and can have volatile movements in share prices. TDS and its subsidiaries do not make direct investments in publicly traded companies and all of these interests were acquired as a result of sales, trades or reorganizations of other assets. The investment in Deutsche Telekom AG (Deutsche Telekom) resulted from TDS s disposition of its over 80%-owned personal communication services operating subsidiary, Aerial Communications, Inc., to VoiceStream Wireless Corporation (VoiceStream) in exchange for stock of VoiceStream, which was then acquired by Deutsche Telekom in exchange for Deutsche Telekom stock. The investment in Vodafone Group Plc (Vodafone) resulted from certain dispositions of non-strategic cellular investments to or settlements with AirTouch Communications Inc. (AirTouch), in exchange for stock of AirTouch, which was then acquired by Vodafone whereby TDS and its subsidiaries received American Depositary Receipts representing Vodafone stock. The investment in Rural Cellular Corporation (Rural Cellular) is the result of a consolidation of several cellular partnerships in which TDS subsidiaries held interests in Rural Cellular, and the distribution of Rural Cellular stock in exchange for these interests. The investment in VeriSign, Inc. (VeriSign) is the result of the acquisition by VeriSign of Illuminet, Inc., a telecommunication entity in which several TDS subsidiaries held interests.

TDS and its subsidiaries have entered into a number of forward contracts related to the marketable equity securities that they hold. The risk management objective of the forward contracts is to hedge the value of the marketable equity securities from losses due to decreases in the market prices of the securities while retaining a share of gains from increases in the market prices of such securities. The downside risk is hedged at or above the accounting cost basis thereby eliminating the risk of an other-than-temporary loss being recorded on these contracted securities (See Note 11-Revolving Credit Facilities and Forward Contracts).

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

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

7. Goodwill

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

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

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

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

8. Unconsolidated Entities

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

Significant investments in TDS s unconsolidated entities include the following:

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

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

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

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

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9. Customer Lists

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

10. Property, Plant and Equipment

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

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

11. Revolving Credit Facilities and Forward Contracts

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

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

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

As disclosed in Note 1, TDS and its audit committee concluded on November 9, 2005 to restate the Consolidated Financial Statements as of and for the three years ended December 31, 2004 and the first and second quarters of 2005. The restatement resulted in defaults under the revolving credit agreements, one line of credit agreement and certain of the forward contracts. TDS and U.S. Cellular were not in violation of any covenants that require TDS and U.S. Cellular to maintain certain financial ratios. TDS and U.S. Cellular did not fail to make any scheduled payments under such credit agreements or forward contracts. TDS and U.S. Cellular received waivers from the lenders associated with the credit agreements and from the counterparty to such forward contracts, under which the lenders and the counterparty agreed to waive any defaults that may have occurred as a result of the restatement.

12. Asset Retirement Obligation

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

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

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

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

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

13. Long-Term Debt

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

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

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

14. Minority Interest in Subsidiaries

Under SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, certain minority interests in consolidated entities with finite lives may meet the standard s definition of a mandatorily redeemable financial instrument and thus require reclassification as liabilities and remeasurement at the estimated amount of cash that would be due and payable to settle such minority interests under the applicable entity s organization agreement assuming an orderly liquidation of the finite-lived entity, net of estimated liquidation costs (the settlement value). TDS s consolidated financial statements include such minority interests that meet the standard s definition of mandatorily redeemable financial instruments. These mandatorily redeemable minority interests represent interests held by third parties in consolidated partnerships and limited liability companies (LLCs), where the terms of the underlying partnership or LLC agreement provide for a defined termination date at which time the assets of the subsidiary are to be sold, the liabilities are to be extinguished and the remaining net proceeds are to be distributed to the minority interest holders and TDS in accordance with the respective partnership and LLC agreements. The termination dates of TDS s mandatorily redeemable minority interests range from 2042 to 2103.

The settlement value of TDS s mandatorily redeemable minority interests is estimated to be $114.1 million at March 31, 2005. This represents the estimated amount of cash that would be due and payable to settle minority interests assuming an orderly liquidation of the finite-lived consolidated partnerships and LLCs on March 31, 2005, net of estimated liquidation costs. This amount is being disclosed pursuant to the requirements of FSP No. FAS 150-3; TDS has no current plans or intentions to liquidate any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the minority interests in finite-lived consolidated partnerships and LLCs at March 31, 2005 is $30.7 million, and is included in the Balance Sheet caption Minority interest in subsidiaries. The excess of the aggregate settlement value over the aggregate carrying value of the mandatorily redeemable minority interests of $83.4 million is primarily due to the unrecognized appreciation of the minority interest holders share of the underlying net assets in the consolidated partnerships and LLCs. Neither the minority interest holders share, nor TDS s share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements. The estimate of settlement value was based on certain factors and assumptions. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount.

15. Common Share Repurchase Programs

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

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

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

16. Acquisitions, Divestitures and Exchanges

First Quarter 2005 Activity

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

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

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

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

First Quarter 2004 Activity

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

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

17. Accumulated Other Comprehensive Income

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

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

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

18. Business Segment Information

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

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

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

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

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

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

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

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

(3) Represents Suttle Straus.

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

19. Commitments and Contingencies

Indemnifications

TDS enters into agreements in the normal course of business that provide for indemnification of counterparties. These include certain asset sales and financings with other parties. The terms of the indemnifications vary by agreement. The events or circumstances that would require TDS to perform under these indemnities are transaction specific; however, these agreements may require TDS to indemnify the counterparty for costs and losses incurred from litigation or claims arising from the underlying transaction. TDS is unable to estimate the maximum potential liability for these types of indemnifications as the amounts are dependent on the outcome of future events, the nature and likelihood of which cannot be determined at this time. Historically, TDS has not made any significant indemnification payments under such agreements. TDS is party to an indemnity agreement with T-Mobile regarding certain contingent liabilities at Aerial Communications for the period prior to Aerial s merger into VoiceStream Wireless. As of March 31, 2005, TDS has recorded liabilities of $9.3 million relating to this indemnity.

Legal Proceedings

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

Regulatory Environment

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

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

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

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

Restatement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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