TELEPHONE & DATA SYSTEMS INC /DE/
Form DEF 14A
August 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
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x	Definitive Proxy Statement
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Telephone and Data Systems, Inc.
(Name of Registrant as Specified In Its Charter)

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TELEPHONE AND DATA SYSTEMS, INC.
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August 14, 2006

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

To Our Shareholders

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

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

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

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

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

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

2005 Overview: The TDS Companies

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

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

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

- To maintain a strong, investment-grade credit rating

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

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

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

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

Completed restatement of financial results

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

U.S. Cellular Highlights

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

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

Rapid growth in data services revenues

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

Strong customer response to new services and phones

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

Strengthening the strategic footprint

A successful launch in St. Louis

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

Key properties added in Midwest and other markets

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

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

TDS Telecom Highlights

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

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

Rapid growth in high-speed data services

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

Delivering on technology trials

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

A leadership transition

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

Valued Board Member

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

Looking Forward: Key Initiatives

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

U.S. Cellular

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

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

TDS Telecom

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

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

Cordially yours,

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

TELEPHONE AND DATA SYSTEMS, INC.
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August 14, 2006

Dear Shareholders:

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

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

1. elect members of the board of directors; and

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

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

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

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

Very truly yours,

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

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
AND
PROXY STATEMENT

TO THE SHAREHOLDERS OF

TELEPHONE AND DATA SYSTEMS, INC.

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

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

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

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

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

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

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

SUMMARY

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

Proposal 1 Election of Directors

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

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

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

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

Proposal 2 Ratification of Independent Registered Public Accountants for 2006

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

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

VOTING INFORMATION

What is the record date for the meeting?

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

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

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

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

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

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

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

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

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

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

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

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

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

* Less than .1%

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

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

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

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

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

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

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

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

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

How does the TDS Voting Trust intend to vote?

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

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

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

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

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

How do I vote?

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

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

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

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

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

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

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

- a tan proxy card for Preferred Shares.

How will proxies be voted?

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

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

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

What constitutes a quorum for the meeting?

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

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

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

What vote is required to elect directors in Proposal 1?

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

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

What vote is required with respect to Proposal 2?

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

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

PROPOSAL 1
ELECTION OF DIRECTORS

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

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

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

Elected by Holders of Series A Common Shares and Preferred Shares

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Former Director

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

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

Meetings of Board of Directors

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

Compensation Committee

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

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

Former Compensation Committee and Long-Term Compensation Committee

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

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

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

Audit Committee

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

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

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

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

The Audit Committee held thirteen meetings during 2005.

Corporate Governance Committee

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

American Stock Exchange Listing Standards

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

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

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

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

Director Nomination Process

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

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

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

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

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

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

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

Shareholder Communication with Directors

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

TDS Policy on Attendance of Directors at Annual Meeting of Shareholders

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

Stock Ownership Guidelines

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

PROPOSAL 2
INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

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

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

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

FEES PAID TO PRINCIPAL ACCOUNTANTS

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

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

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

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

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

Pre-approval Procedures

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

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

AUDIT COMMITTEE REPORT

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

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

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

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

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

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

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

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EXECUTIVE OFFICERS

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

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

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

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

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

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

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

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

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

Codes of Conduct and Ethics

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

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

EXECUTIVE COMPENSATION

Summary of Compensation

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

Summary Compensation Table(1)

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

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

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

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

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

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

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

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

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

The following table summarizes the restricted stock awards:

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

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

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

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

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

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

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

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

General Information Regarding Options

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

Individual Option Grants in 2005

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

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

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

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

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

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

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

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

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

Option Exercises in 2005 and December 31, 2005 Option Values

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Tax Deferred Savings Plan

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

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

Pension Plans and Supplemental Benefit Agreements

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

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

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

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

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

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

Deferred Compensation Agreements

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

Bonus Deferral and Stock Unit Match Program

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

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

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

Other Agreements

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

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

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

Compensation of Directors

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

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

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

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

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

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

Executive Officer Compensation Report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Stock Performance Chart

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

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

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

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

* Cumulative total return assumes reinvestment of dividends.

Compensation Committee Interlocks and Insider Participation

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

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

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

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION

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

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

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

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

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

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

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

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

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

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

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

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

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

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

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

Security Ownership of Management

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

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

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

* Less than 1%

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

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

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

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

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

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

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

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

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

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

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

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

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

Security Ownership by Certain Beneficial Owners

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

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

* Less than 1%

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

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

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

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

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

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

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

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

(9) Represents Series TT Preferred Shares.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

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

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See Executive Compensation Compensation Committee Interlocks and Insider Participation.

SHAREHOLDER PROPOSALS FOR THE 2007 ANNUAL MEETING

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

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

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

SOLICITATION OF PROXIES

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

FINANCIAL INFORMATION

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

OTHER BUSINESS

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

By order of the Board of Directors

Kevin C. Gallagher
Vice President and Corporate Secretary

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

EXHIBIT A

Audit Committee of the Board of Directors of

Telephone and Data Systems, Inc.

CHARTER*

I. PURPOSE

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

II. COMPOSITION/ELIGIBILITY

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

III. EXTERNAL ADVISORS

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

IV. FUNDING

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

V. FUNCTIONS

The Audit Committee shall:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Certified Public Accountants;

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

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

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

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

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

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

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

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

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

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

VI. LIMITATIONS

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

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

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

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

APPENDIX I

TELEPHONE AND DATA SYSTEMS, INC.

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

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

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

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

Exhibit 13

Telephone and Data Systems, Inc. and Subsidiaries

Financial Report

Telephone and Data Systems, Inc. and Subsidiaries

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

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

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

OVERVIEW

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

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

U.S. Cellular s business development strategy is to purchase controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. Its largest contiguous service area is in the Midwest/Southwest, where it serves 3.4 million customers and owns licenses covering a total population of more than 32 million. U.S. Cellular s operating strategy is to strengthen the geographic areas where it can continue to build long-term operating synergies and to exit those areas where it does not have opportunities to build such synergies. U.S. Cellular s most recently completed transactions and service launches are summarized below.

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

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

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

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

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

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

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

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

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

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

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

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

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

See Results of Operations Wireless Telephone Operations.

TDS Telecom TDS Telecom provides high-quality telecommunication services, including full-service local exchange service, long distance telephone service, and Internet access, to rural and suburban communities. TDS Telecom s business plan is designed for a full-service

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telecommunications company, including competitive local exchange carrier operations, by leveraging TDS Telecom s strength as an incumbent local exchange carrier. TDS Telecom is focused on achieving three central strategic objectives: growth, market leadership, and profitability. TDS Telecom s strategy includes gaining additional market share and deepening penetration of vertical services within established markets. The strategy places primary emphasis on small- and medium-sized commercial customers and residential customers. An important component of TDS Telecom s business strategy is to develop high-growth service, particularly in the data arena. In light of the growth of Internet use and rapid introduction of new telecommunications technology, TDS Telecom intends to offer a suite of data products in all of its markets, thereby positioning itself as a full-service data networking service provider.

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

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

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

See Results of Operations Wireline Telephone Operations.

Financing Initiatives TDS and its subsidiaries had cash and cash equivalents totaling $1,095.8 million, $1,161.3 million of revolving credit facilities and an additional $75.0 million of bank lines of credit as of December 31, 2005. TDS and its subsidiaries are also generating substantial internal funds from operations. Cash flow from continuing operating activities totaled $880.2 million in 2005, $797.4 million in 2004 and $971.0 million in 2003. Management believes that cash on hand, expected future cash flows from operating activities and sources of external financing provide substantial financial flexibility and are sufficient to permit TDS and its subsidiaries to finance their contractual obligations and anticipated capital expenditures for the foreseeable future.

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

2005

- TDS Telecom subsidiaries repaid approximately $232.6 million in principal amount of notes to the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB), the Federal Financing Bank (FFB), and the Rural Telephone Finance Cooperative (RTFC).

- TDS issued $116.25 million in aggregate principal amount of unsecured 6.625% senior notes due March 31, 2045.

- TDS redeemed medium-term notes of $17.2 million.

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2004

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

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

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

2003

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

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

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

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

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

See Financial Resources and Liquidity and Capital Resources.

RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2005

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

2004

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

2003

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

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

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

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

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

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

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

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

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

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

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

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

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

WIRELESS TELEPHONE OPERATIONS

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

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

	Number of Markets
Consolidated markets (1)	189
Consolidated markets to be acquired pursuant to existing agreements (2)	28
Minority interests accounted for using equity method (3)	19
Minority interests accounted for using cost method (4)	5
Total markets to be owned after completion of pending transactions	241

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(4) Calculated using 2004, 2003 and 2002 Claritas population estimates for 2005, 2004 and 2003, respectively. Total market population is used only for the purposes of calculating market penetration, which is calculated by dividing customers by the total market population (without duplication of population in overlapping markets).

(5) Net customer additions represents the number of net customers added to U.S. Cellular s overall customer base through all of its marketing distribution channels, excluding any net customers transferred through acquisition or divestiture activity. Net retail customer additions represents the number of net customers added to U.S. Cellular s customer base, excluding net reseller customers added to its reseller customer base, through its marketing distribution channels, excluding any net customers transferred through acquisition or divestiture activity.

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

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

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

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

Operating Revenues

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

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

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

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

Service revenues increased $214.7 million, or 8%, to $2,831.6 million in 2005 from $2,616.9 million in 2004, and increased $198.0 million, or 8%, in 2004 from $2,418.9 million in 2003. Service revenues primarily consist of: (i) charges for access, airtime, roaming and value-added services provided to U.S. Cellular s retail customers (retail service); (ii) charges to other wireless carriers

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whose customers use U.S. Cellular s wireless systems when roaming (inbound roaming); and (iii) charges for long-distance calls made on U.S. Cellular s systems. The increases in service revenues in both years were primarily due to the growth in the number of retail customers in each year. Monthly service revenue per customer averaged $45.32 in 2005, $46.61 in 2004 and $47.29 in 2003.

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

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

U.S. Cellular anticipates that growth in its customer base will be lower in the future, primarily as a result of increased competition and higher penetration in its markets. However, as U.S. Cellular expands its operations in its recently acquired and launched markets in future years, it anticipates adding customers and revenues in those markets.

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating Expenses

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

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

System operations expenses (excluding depreciation) increased $39.7 million, or 7%, to $602.4 million in 2005 from $562.7 million in 2004, and decreased $15.6 million, or 3%, in 2004 from $578.3 million in 2003. System operations expenses include charges from landline telecommunications service providers for U.S. Cellular s customers use of their facilities, costs related to local interconnection to the landline network, charges for maintenance of U.S. Cellular s network, long-distance charges, outbound roaming expenses and payments to third-party data product and platform developers.

The components of system operations expenses were as follows:

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

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

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

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

In total, U.S. Cellular expects system operations expenses to increase over the next few years, driven by the following factors:

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

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

These factors are expected to be partially offset by anticipated decreases in the per-minute cost of usage both on U.S. Cellular s systems and on other carriers networks.

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

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

Selling, general and administrative expenses increased $124.7 million, or 11%, to $1,212.9 million in 2005 from $1,088.2 million in 2004, and increased $80.6 million, or 8%, in 2004 from $1,007.6 million in 2003. Selling, general and administrative expenses primarily consist of salaries, commissions and expenses of field sales and retail personnel and offices; agent commissions and related expenses; corporate marketing, merchandise management and telesales department salaries and expenses; advertising; and public relations expenses. Selling, general and administrative expenses also include the costs of operating U.S. Cellular s customer care centers, the non-network costs of serving customers and the majority of U.S. Cellular s corporate expenses.

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

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

2005

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

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

- a $21.5 million increase in consulting and outsourcing costs as U.S. Cellular increased its use of third parties to perform certain functions and participate in certain projects; and

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

2004

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

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

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

The increases were partially offset by the following:

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

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

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

Sales and marketing cost per gross customer activation is not calculable using financial information derived directly from the Consolidated Statements of Operations. The definition of sales and marketing cost per gross customer activation that U.S. Cellular uses as a measure of the cost to acquire additional customers through its marketing distribution channels may not be comparable to similarly titled measures that are reported by other companies.

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

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

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

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

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

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

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

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

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

Monthly general and administrative expenses per customer, including the net costs related to the renewal or upgrade of service contracts of existing U.S. Cellular customers (net customer retention costs), decreased 3% to $13.00 in 2005 from $13.46 in both 2004 and 2003. The decrease in 2005 reflected reductions in handset subsidies related to retention transactions and bad debts expense, as well as an increase of 11% in the average customer base. In 2004, an increase in handset subsidies related to retention transactions was offset by the effects of a reduction in bad debts expense and an increase of 10% in the average customer base.

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

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

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

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

(2) Average customers for each respective period as previously listed in footnote 5 to the table of summarized operating data.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating Income

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

U.S. Cellular expects many of the above factors, except for those related to new market launches and acquisition and divestiture activities, to continue to have an effect on operating income and operating income margins for the next several quarters. Any changes in the above factors, as well as the effects of other drivers of U.S. Cellular s operating results, may cause operating income and operating income margins to fluctuate over the next several quarters.

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

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

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

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

Effects of Competition on Operating Income

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

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

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

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

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

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

WIRELINE TELEPHONE OPERATIONS

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

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

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

TDS Telecom Operating Income

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

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

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

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

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