TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-Q/A
February 23, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from to

Commission File Number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes x No o

Indicate by check whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b 2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

Yes o No x

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

Class	**Outstanding at August 31, 2006**
Common Shares, $.01 par value	51,432,410 Shares
Special Common Shares, $.01 par value	57,782,076 Shares
Series A Common Shares, $.01 par value	6,445,404 Shares

Explanatory Note

Telephone and Data Systems, Inc. (TDS) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006, which was originally filed with the Securities and Exchange Commission (SEC) on October 10, 2006 (Original Form 10-Q), to amend Part I Financial Information Item 1 Financial Statements, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), Item 3 Quantitative and Qualitative Disclosures About Market Risk, and Item 4 Controls and Procedures, and Part II Other Information Item 6 Exhibits and Financial Statement Schedules.

As discussed in Note 1 to the Consolidated Financial Statements, TDS and its audit committee concluded on November 6, 2006, that TDS would amend its Annual Report on Form 10-K for the year ended December 31, 2005 to restate its consolidated financial statements and financial information for each of the three years in the period ended December 31, 2005, including quarterly information for 2005 and 2004, and certain selected financial data for 2002. TDS and its audit committee also concluded that TDS would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006 to restate the consolidated financial statements and financial information included therewith.

The restatement adjustments are described below.

- Forward contracts and related derivative instruments - In reviewing the accounting and disclosure of its prepaid forward contracts, TDS concluded that its continued designation of the embedded collars within the forward contracts as cash flow hedges of marketable equity securities was not appropriate. TDS did not contemporaneously de-designate, re-designate, and assess hedge effectiveness when the embedded collars were contractually modified for differences between the actual and expected dividend rates on the underlying securities in 2004, 2003 and 2002. As a result, the embedded collars no longer qualified for cash flow hedge accounting treatment upon the modification of the terms of the collars for changes in dividend rates and, from that point forward, must be accounted for as derivative instruments that do not qualify for cash flow hedge accounting treatment. Accordingly, all changes in the fair value of the embedded collars from the time of the contractual modification of each collar must be recognized in the statement of operations. The restatement adjustments represent reclassifications of unrealized gains or losses related to changes in the fair value of the embedded collars from other comprehensive income or loss, included in common stockholders equity, to the statement of operations.

- Expense reclassifications - Certain prior period amounts, primarily labor, maintenance, rent and utilities expenses at the competitive local exchange carriers (CLEC), previously reported in selling, general and administrative expense have been corrected to properly reflect the classification of the expenses in cost of service and products in the current period. Certain expenses, primarily universal service costs, at both the incumbent local exchange carriers (ILEC) and the CLEC previously reported in cost of service and products have been adjusted to properly reflect the classification of the expenses in selling, general and administrative expense. These adjustments did not have an effect on operating income or net income.

- Establishment of an Asset Retirement Obligation (ARO) - Upon initial implementation of Statement of Financial Accounting Standards No. 143 Accounting for Asset Retirement Obligations (SFAS No. 143) in 2003, TDS Telecom s ILEC operations concluded that it was not necessary to record an ARO asset and corresponding regulatory liability of equal amount. TDS Telecom's ILECs have their rates regulated by the respective state public utility commissions and the Federal Communications Commission (FCC), and therefore, reflect the effects of the rate-making actions of these regulatory bodies in their financial statements. In 2002, the FCC notified carriers by Order that it would not be adopting SFAS No. 143 since the FCC concluded that SFAS No. 143 conflicted with the FCC's current accounting rules that require ILECs to accrue for asset retirement obligations through prescribed depreciation rates. Upon adoption of SFAS No. 143, and pursuant to the FCC's order and the provisions of SFAS No. 71 Accounting for the Effects of Certain Types of Regulation, (SFAS No.71) the ILECs reclassified their existing remediation liabilities, previously recorded in accumulated depreciation, to an ARO liability and a separate regulatory liability. Upon further review, TDS has concluded that upon adoption of SFAS No. 143, and in accordance with SFAS No. 71, it should have recognized an ARO asset and a corresponding ARO liability, rather than establish the

ARO liability through a reclassification of its existing remediation liabilities. The adjustment did not affect previously reported revenues, operating income or net income (loss).

- Contracts with maintenance and support services U.S. Cellular entered into certain equipment and software contracts that included maintenance and support services. In one case, U.S. Cellular did not properly allocate expenditures between equipment purchases and maintenance and support services. In other cases, U.S. Cellular did not properly record fees for maintenance and support services over the specified term of the agreement. The restatement adjustments properly record property, plant and equipment, related depreciation expense and fees for maintenance and support services in the correct periods.

- Classification of Asset Retirement Obligation on the Statement of Cash Flows The additions to property, plant and equipment and other deferred liabilities representing additional asset retirement obligations (ARO) should be treated as non-cash items in the statement of cash flows. From 2004 through the second quarter of 2006, U.S. Cellular included additional ARO liabilities as a change in other assets and liabilities in cash flows from operating activities and the increase in the ARO asset balance as a capital expenditure in cash flows from investing activities resulting in an overstatement of cash flows from operating activities and an overstatement of cash flows required by investing activities. In the restatement, adjustments were recorded in the statement of cash flows to offset the change in ARO liabilities against the ARO asset.

- Income taxes In the restatement, TDS adjusted its income tax expense, income taxes payable, goodwill, deferred income tax assets and liabilities and related disclosures for the years ended December 31, 2005, 2004, 2003 and 2002 for items identified based on its annual analysis reconciling its 2005 income tax expense and income tax balance sheet accounts as determined in its comparison of the 2005 year-end income tax provision to the 2005 federal and state income tax returns. These adjustments included corrections for certain accounts that had not previously been included in the financial reporting basis used in determining the cumulative temporary differences in computing deferred income tax assets and liabilities, as well as adjustments to certain cumulative temporary differences that had historically been incorrectly associated with operating license assets which, in this restatement, have been correctly classified as investments in partnership assets. Accordingly, the company has adjusted the deferred tax liabilities related to these assets. Goodwill was adjusted to record the income tax effect of the difference between the financial reporting basis and the income tax basis of certain acquisitions made prior to 2004.

TDS determined that the state deferred tax liabilities attributable to marketable equity securities, as presented in prior periods, should have been lower to reflect carryover of a higher stock basis than the federal basis for certain states that have not adopted the federal consolidated return regulations. TDS also identified a valuation allowance related to state net operating loss carry forwards for which deferred tax liabilities related to marketable equity securities provide positive evidence supporting reductions to previously established valuation allowances.

- Cash and interest income In reviewing cash accounts, it was determined that cash and interest income were overstated in the three months ended March 31, 2006 and six months ended June 30, 2006. In the restatement, TDS corrected the overstatement by reducing cash and interest income.

- Property, plant and equipment U.S. Cellular did not properly record certain transfers and disposals of equipment removed from service. Also, U.S. Cellular did not properly record depreciation expense for certain leasehold improvements and other equipment due to the use of incorrect asset lives. The restatement adjustments properly record equipment disposals and depreciation expense in the correct amounts and periods.

- Other items In addition to the adjustments described above, TDS recorded a number of other adjustments to correct and record revenues, expenses and equity in earnings of unconsolidated entities in the periods in which such revenues, expenses and equity in earnings of unconsolidated entities were earned or incurred. Adjustments were also made to correct certain balance sheet amounts, including corrections to purchase price accounting for certain acquisitions prior to 2003. These individual adjustments were not material.

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

For the convenience of the reader, this Form 10-Q/A sets forth the Original Form 10-Q, as amended hereby, in its entirety. However, this Form 10-Q/A amends and restates only Items 1, 2, 3, and 4 of Part I and Item 6 of Part II of the Original Form 10-Q, in each case solely as a result of and to reflect the adjustments discussed above and more fully in Note 1 of the accompanying consolidated financial statements, and no other information in the Original Form 10-Q is amended hereby. The foregoing items have not been updated to reflect other events occurring after the filing of the Original Form 10-Q, or to modify or update those disclosures affected by other subsequent events. In particular, forward-looking statements included in the Form 10-Q/A represented management s views as of the date of filing of the Original Form 10-Q for the quarterly period ended June 30, 2006 on October 10, 2006. Such forward-looking statements should not be assumed to be accurate as of any future date. TDS undertakes no duty to update such information whether as a result of new information, future events or otherwise.

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

TELEPHONE AND DATA SYSTEMS, INC.

QUARTERLY REPORT ON FORM 10-Q/A

FOR THE PERIOD ENDED JUNE 30, 2006

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

	Three Months Ended June 30, 2006 (As Restated)	2005 (As Restated)	Six Months Ended June 30, 2006 (As Restated)	2005 (As Restated)
	(Dollars in thousands, except per share amounts)			
Operating Revenues	$ 1,068,687	$ 967,948	$ 2,127,764	$ 1,901,910
Operating Expenses				
Cost of services and products (exclusive of depreciation, amortization and accretion expense shown below)	369,559	341,993	745,865	685,810
Selling, general and administrative expense	411,366	352,707	803,987	697,779
Depreciation, amortization and accretion expense	180,453	167,911	363,419	338,052
Total Operating Expenses	961,378	862,611	1,913,271	1,721,641
Operating Income	107,309	105,337	214,493	180,269
Investment and Other Income (Expense)				
Equity in earnings of unconsolidated entities	22,491	17,741	42,296	32,492
Interest and dividend income	146,545	119,192	158,028	127,310
Interest expense	(59,288)	(54,532)	(117,820)	(106,388)
Fair value adjustment of derivative instruments	(11,768)	164,323	(11,738)	499,723
Gain on investments	91,418		91,418	500
Other expense	(941)	(6,802)	(1,868)	(11,076)
Total Investment and Other Income	188,457	239,922	160,316	542,561
Income Before Income Taxes and Minority Interest	295,766	345,259	374,809	722,830
Income tax expense	117,186	140,090	149,528	288,490
Income Before Minority Interest	178,580	205,169	225,281	434,340
Minority share of income	(11,821)	(11,190)	(22,525)	(16,800)
Net Income	166,759	193,979	202,756	417,540
Preferred dividend requirement	(50)	(52)	(101)	(102)
Net Income Available To Common	$ 166,709	$ 193,927	$ 202,655	$ 417,438
Basic Weighted Average Shares Outstanding (000s)	115,768	115,224	115,754	115,112
Basic Earnings Per Share (Note 7)	$ 1.44	$ 1.68	$ 1.75	$ 3.63
Diluted Weighted Average Shares Outstanding (000s)	116,640	115,959	116,576	115,926
Diluted Earnings Per Share (Note 7)	$ 1.43	$ 1.67	$ 1.73	$ 3.60

Dividends Per Share	$ 0.0925	$ 0.0875	$ 0.185	$ 0.175

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

	Six Months Ended June 30, 2006 (As Restated) (Dollars in thousands)		2005 (As Restated)	
Cash Flows from Operating Activities				
Net income	$ 202,756		$ 417,540	
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities				
Depreciation, amortization and accretion	363,419		338,052	
Bad debts expense	26,465		17,764	
Stock-based compensation expense	14,653		4,086	
Deferred income taxes	(41,091	)	195,198	
Equity in earnings of unconsolidated entities	(42,296	)	(32,492	)
Distributions from unconsolidated entities	37,399		27,914	
Minority share of income	22,525		16,800	
Fair value adjustment of derivative instruments	11,738		(499,723	)
(Gain) loss on investments	(91,418	)	(500	)
Noncash interest expense	10,705		10,129	
Other noncash expense	3,631		5,558	
Changes in assets and liabilities				
Change in accounts receivable	(41,637	)	(28,171	)
Change in materials and supplies	10,503		22,020	
Change in accounts payable	(47,956	)	(46,303	)
Change in customer deposits and deferred revenues	5,346		8,339	
Change in accrued taxes	67,233		76,878	
Change in other assets and liabilities	(32,485	)	(17,759	)
	479,490		515,330	
Cash Flows from Investing Activities				
Additions to property, plant and equipment	(330,294	)	(304,383	)
Cash received from divestitures	722		500	
Cash paid for acquisitions	(18,546	)	(126,033	)
Sales of investments	102,549			
Other investing activities	(2,887	)	(1,271	)
	(248,456	)	(431,187	)
Cash Flows from Financing Activities				
Issuance of notes payable	195,000		310,000	
Issuance of long-term debt	560		112,881	
Repayment of notes payable	(225,000	)	(290,000	)
Repayment of long-term debt	(1,586	)	(240,752	)
Repayment of medium-term notes	(35,000	)	(17,200	)
TDS Common Shares and Special Common Shares issued for benefit plans	3,047		12,663	
U.S. Cellular Common Shares issued for benefit plans	3,856		14,012	
Capital (distributions) to minority partners	(7,613	)	(810	)
Dividends paid	(21,498	)	(20,259	)
Other financing activities	750		(6	)
	(87,484	)	(119,471	)
Net Increase (Decrease) in Cash and Cash Equivalents	143,550		(35,328	)

Cash and Cash Equivalents		
Beginning of period	1,095,791	1,171,105
End of period	$ 1,239,341	$ 1,135,777

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

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CONSOLIDATED BALANCE SHEETS

ASSETS

Unaudited

	June 30, 2006 (As Restated) (Dollars in thousands)	December 31, 2005 (As Restated)
Current Assets		
Cash and cash equivalents	$ 1,239,341	$ 1,095,791
Accounts receivable		
Due from customers, less allowance of $14,033 and $15,200, respectively	339,627	332,278
Other, principally connecting companies, less allowance of $7,831 and $5,620, respectively	165,553	157,182
Marketable equity securities	272,938	
Materials and supplies	93,922	103,211
Prepaid expenses	53,688	41,746
Deferred income tax asset		13,438
Other current assets	24,458	34,774
	2,189,527	1,778,420
Investments		
Marketable equity securities	2,176,706	2,531,690
Licenses	1,370,369	1,365,063
Goodwill	886,476	882,168
Customer lists, net of accumulated amortization of $56,323 and $44,616, respectively	37,998	47,649
Investments in unconsolidated entities	222,187	217,180
Other investments, less valuation allowance of $55,144 in both periods	11,760	12,274
	4,705,496	5,056,024
Property, Plant and Equipment		
In service and under construction	7,431,878	7,131,977
Less accumulated depreciation	3,907,694	3,602,217
	3,524,184	3,529,760
Other Assets and Deferred Charges	56,231	55,830
	$ 10,475,438	$ 10,420,034

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

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS EQUITY

Unaudited

	June 30, 2006 (As Restated) (Dollars in thousands)	December 31, 2005 (As Restated)
Current Liabilities		
Current portion of long-term debt	$ 203,091	$ 237,948
Forward contracts	179,832	
Notes payable	105,000	135,000
Accounts payable	312,512	359,934
Customer deposits and deferred revenues	132,362	126,454
Accrued interest	29,212	28,946
Accrued taxes	112,663	46,061
Accrued compensation	54,495	67,443
Derivative liability	50,828	
Deferred income tax liability	44,669	
Other current liabilities	74,497	63,539
	1,299,161	1,065,325
Deferred Liabilities and Credits		
Net deferred income tax liability	1,195,527	1,337,716
Derivative liability	413,054	449,192
Asset retirement obligation	200,529	190,382
Other deferred liabilities and credits	108,873	107,924
	1,917,983	2,085,214
Long-Term Debt		
Long-term debt, excluding current portion	1,632,577	1,633,519
Forward contracts	1,536,563	1,707,282
	3,169,140	3,340,801
Commitments and Contingencies (See Note 21)		
Minority Interest in Subsidiaries	566,881	546,833
Preferred Shares	3,863	3,863
Common Stockholders Equity		
Common Shares, par value $.01 per share; authorized 100,000,000 shares; issued 56,503,000 and 56,481,000 shares, respectively	565	565
Special Common Shares, par value $.01 per share; authorized 165,000,000 shares, issued 62,887,000 and 62,868,000 shares, respectively	629	629
Series A Common Shares, par value $.01 per share; authorized 25,000,000 shares; issued and outstanding 6,446,000 and 6,440,000 shares; respectively	64	64
Capital in excess of par value	1,837,354	1,828,634
Treasury Shares, at cost:		
Common Shares, 5,071,000 and 5,105,000 shares, respectively	(207,524)	(208,156)
Special Common Shares 5,105,000 and 5,128,000 shares, respectively	(209,421)	(210,600)
Accumulated other comprehensive income	312,264	363,641
Retained earnings	1,784,479	1,603,221

	3,518,410	3,377,998
	$ 10,475,438	$ 10,420,034

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

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TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accounting policies of Telephone and Data Systems, Inc. (TDS) conform to accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of TDS and its majority-owned subsidiaries, including TDS s 81.2%-owned wireless telephone subsidiary, United States Cellular Corporation (U.S. Cellular), TDS s 100%-owned wireline telephone subsidiary, TDS Telecommunications Corporation (TDS Telecom) and TDS s 80%-owned printing and distribution company, Suttle Straus, Inc. In addition, the consolidated financial statements include all entities in which TDS has a variable interest that requires TDS to absorb a majority of the entity s expected gains or losses, or both. All material intercompany accounts and transactions have been eliminated.

The consolidated financial statements included herein have been prepared by TDS, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. However, TDS believes that the information and disclosures included herein are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in TDS s Annual Report on Form 10-K/A for the year ended December 31, 2005 (Form 10-K/A).

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items unless otherwise disclosed) necessary to present fairly the financial position as of June 30, 2006 and December 31, 2005, and the results of operations for the three and six months ended June 30, 2006 and 2005 and the cash flows for the six months ended June 30, 2006 and 2005. The results of operations for the three and six months ended June 30, 2006, are not necessarily indicative of the results to be expected for the full year.

Restatement

TDS and its audit committee concluded on November 6, 2006, that TDS would amend its Annual Report on Form 10-K for the year ended December 31, 2005 to restate its consolidated financial statements and financial information for each of the three years in the period ended December 31, 2005, including quarterly information for 2005 and 2004, and certain selected financial data for 2002. TDS and its audit committee also concluded that TDS would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006 to restate the consolidated financial statements and financial information included therewith.

The restatement adjustments are described below.

- Forward contracts and related derivative instruments - In reviewing the accounting and disclosure of its prepaid forward contracts, TDS concluded that its continued designation of the embedded collars within the forward contracts as cash flow hedges of marketable equity securities was not appropriate. TDS did not contemporaneously de-designate, re-designate, and assess hedge effectiveness when the embedded collars were contractually modified for differences between the actual and expected dividend rates on the underlying securities in 2004, 2003 and 2002. As a result, the embedded collars no longer qualified for cash flow hedge accounting treatment upon the modification of the terms of the collars for changes in dividend rates and, from that point forward, must be accounted for as derivative instruments that do not qualify for cash flow hedge accounting treatment. Accordingly, all changes in the fair value of the embedded collars from the time of the contractual modification of each collar must be recognized in the statement of operations. The restatement adjustments represent reclassifications of unrealized gains or losses related to changes in the fair value of the embedded collars from other comprehensive income or loss, included in common stockholders equity, to the statement of operations.

- Expense reclassifications - Certain prior period amounts, primarily labor, maintenance, rent and utilities expenses at the competitive local exchange carriers (CLEC), previously reported in selling, general and administrative expense have been corrected to properly reflect the classification of the expenses in cost of service and products in the current period. Certain expenses, primarily universal service costs, at both the incumbent local exchange carriers (ILEC) and the CLEC previously reported in cost of service and products have been adjusted to properly reflect the classification of the expenses in selling, general and administrative expense. For the ILEC, cost of services and products decreased by $1.7 million and $3.3 million with a corresponding increase in selling, general and administrative expenses in the three and six months ended June 30, 2005, respectively. For the CLEC, cost of services and products increased by $5.9 million and $11.7 million with a corresponding decrease in selling, general and administrative expenses in the three and six months ended June 30, 2005, respectively. On a TDS consolidated basis, cost of services and products increased by $4.2 million and $8.4 million with a corresponding decrease in selling, general and administrative expenses in the three and six months ended June 30, 2005, respectively. The adjustments did not affect previously reported revenues, operating income or net income.

- Establishment of an Asset Retirement Obligation (ARO) - Upon initial implementation of Statement of Financial Accounting Standards No. 143 Accounting for Asset Retirement Obligations (SFAS No. 143) in 2003, TDS Telecom s ILEC operations concluded that it was not necessary to record an ARO asset and corresponding regulatory liability of equal amount. TDS Telecom's ILECs have their rates regulated by the respective state public utility commissions and the Federal Communications Commission (FCC), and therefore, reflect the effects of the rate-making actions of these regulatory bodies in their financial statements. In 2002, the FCC notified carriers by Order that it would not be adopting SFAS No. 143 since the FCC concluded that SFAS No. 143 conflicted with the FCC's current accounting rules that require ILECs to accrue for asset retirement obligations through prescribed depreciation rates. Upon adoption of SFAS No. 143, and pursuant to the FCC's order and the provisions of SFAS No. 71 Accounting for the Effects of Certain Types of Regulation, (SFAS No.71) the ILECs reclassified their existing remediation liabilities, previously recorded in accumulated depreciation, to an ARO liability and a separate regulatory liability. Upon further review, TDS has concluded that upon adoption of SFAS No. 143, and in accordance with SFAS No. 71, it should have recognized an ARO asset and a corresponding ARO liability, rather than establish the ARO liability through a reclassification of its existing remediation liabilities. The impact of establishing the ARO asset increased Property, Plant and Equipment and the corresponding ARO liability by $26.8 million and $27.3 million as of June 30, 2006 and December 31, 2005, respectively. The adjustment did not affect previously reported revenues, operating income or net income (loss).

- Contracts with maintenance and support services U.S. Cellular entered into certain equipment and software contracts that included maintenance and support services. In one case, U.S. Cellular did not properly allocate expenditures between equipment purchases and maintenance and support services. In other cases, U.S. Cellular did not properly record fees for maintenance and support services over the specified term of the agreement. The restatement adjustments properly record property, plant and equipment, related depreciation expense and fees for maintenance and support services in the correct periods.

- Classification of Asset Retirement Obligation on the Statement of Cash Flows The additions to property, plant and equipment and other deferred liabilities representing additional asset retirement obligations (ARO) should be treated as non-cash items in the statement of cash flows. From 2004 through the second quarter of 2006, U.S. Cellular included additional ARO liabilities as a change in other assets and liabilities in cash flows from operating activities and the increase in the ARO asset balance as a capital expenditure in cash flows from investing activities resulting in an overstatement of cash flows from operating activities and an overstatement of cash flows required by investing activities. In the restatement, adjustments were recorded in the statement of cash flows to offset the change in ARO liabilities against the ARO asset. The reduction in the change in other assets and liabilities in cash flows from operating activities and the reduction in additions to property, plant and equipment in cash flows from investing activities totaled \$3.4 million and \$2.3 million in the six months ended June 30, 2006 and 2005, respectively.

• Income taxes In the restatement, TDS adjusted its income tax expense, income taxes payable, goodwill, deferred income tax assets and liabilities and related disclosures for the years ended December 31, 2005, 2004, 2003 and 2002 for items identified based on its annual analysis reconciling its 2005 income tax expense and income tax balance sheet accounts as determined in its comparison of the 2005 year-end income tax provision to the 2005 federal and state income tax returns. These adjustments included corrections for certain accounts that had not previously been included in the financial reporting basis used in determining the cumulative temporary differences in computing deferred income tax assets and liabilities, as well as adjustments to certain cumulative temporary differences that had historically been incorrectly associated with operating license assets which, in this restatement, have been correctly classified as investments in partnership assets. Accordingly, the company has adjusted the deferred tax liabilities related to these assets. Goodwill was adjusted by $10.2 million to record the income tax effect of the difference between the financial reporting basis and the income tax basis of certain acquisitions made prior to 2004.

TDS determined that the state deferred tax liabilities attributable to marketable equity securities, as presented in prior periods, should have been lower to reflect carryover of a higher stock basis than the federal basis for certain states that have not adopted the federal consolidated return regulations. TDS also identified a valuation allowance related to state net operating loss carry forwards for which deferred tax liabilities related to marketable equity securities provide positive evidence supporting reductions to previously established valuation allowances.

• Cash and interest income In reviewing cash accounts, it was determined that cash and interest income were overstated in the three months ended March 31, 2006 and six months ended June 30, 2006. In the restatement, TDS corrected the overstatement by reducing cash and interest income.

• Property, plant and equipment U.S. Cellular did not properly record certain transfers and disposals of equipment removed from service. Also, U.S. Cellular did not properly record depreciation expense for certain leasehold improvements and other equipment due to the use of incorrect asset lives. The restatement adjustments properly record equipment disposals and depreciation expense in the correct amounts and periods.

• Other items In addition to the adjustments described above, TDS recorded a number of other adjustments to correct and record revenues, expenses and equity in earnings of unconsolidated entities in the periods in which such revenues, expenses and equity in earnings of unconsolidated entities were earned or incurred. Adjustments were also made to correct certain balance sheet amounts, including $2.1 million corrections to purchase price accounting for certain acquisitions prior to 2003. These individual adjustments were not material.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2006	**2005**	**2006**	**2005**
	(Increase (decrease) dollars in thousands)			
Income Before Income Taxes and Minority Interest, as previously reported	$ 306,524	$ 183,171	$ 392,617	$ 229,378
Forward contracts and related derivative instruments	(12,169)	164,229	(12,564)	499,676
Contracts with maintenance and support services	198	(138)	339	(335)
Interest income			(4,754)	
Property, plant and equipment	1,511	317	3,111	77
Other items	(298)	(2,320)	(3,940)	(5,966)
Total adjustment	(10,758)	162,088	(17,808)	493,452
Income Before Income Taxes and Minority Interest, as restated	$ 295,766	$ 345,259	$ 374,809	$ 722,830

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

	Three Months Ended June 30, 2006		2005		Six Months Ended June 30, 2006		2005	
	Net Income	Diluted Earnings Per Share	Net Income	Diluted Earnings Per Share	Net Income	Diluted Earnings Per Share	Net Income	Diluted Earnings Per Share
	(Increase (decrease) dollars in thousands, except per share amounts)							
As previously reported	$ 172,467	$ 1.48	$ 97,056	$ 0.83	$ 212,342	$ 1.82	$ 120,105	$ 1.03
Forward contracts and related derivative instruments	(7,274)	(0.07)	97,405	0.85	(7,946)	(0.07)	299,325	2.58
Contracts with maintenance and support services	101		(56)		176		(140)	
Income taxes	679	0.01	549		1,358	0.01	1,098	0.01
Interest income					(2,876)	(0.02)		
Property, plant and equipment	710	0.01	151		1,464	0.01	42	
Other items	76		(1,126)	(0.01)	(1,762)	(0.02)	(2,890)	(0.02)
Total adjustment	(5,708)	(0.05)	96,923	0.84	(9,586)	(0.09)	297,435	2.57
As restated	$ 166,759	$ 1.43	$ 193,979	$ 1.67	$ 202,756	$ 1.73	$ 417,540	$ 3.60

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

	Three Months Ended June 30, 2006		June 30, 2005	
	As Previously Reported	As Restated	As Previously Reported	As Restated
	(Dollars in thousands, except per share amounts)			
Operating Revenues	$ 1,065,910	$ 1,068,687	$ 969,859	$ 967,948
Operating Expenses				
Cost of service and products (exclusive of depreciation, amortization and accretion shown separately below)	369,559	369,559	341,830	341,993
Selling, general and administrative expense	410,468	411,366	352,127	352,707
Depreciation, amortization and accretion expense	179,985	180,453	168,575	167,911
Total Operating Expenses	960,012	961,378	862,532	862,611
Operating Income	105,898	107,309	107,327	105,337
Investment and Other Income (Expense)				
Equity in earnings of unconsolidated entities	22,491	22,491	18,188	17,741
Interest and dividend income	146,545	146,545	118,896	119,192
Interest expense	(59,288)	(59,288)	(54,532)	(54,532)
Fair value adjustment of derivative instruments	401	(11,768)	94	164,323
Gain on investments	91,418	91,418		
Other income (expense), net	(941)	(941)	(6,802)	(6,802)
Total Investment and Other Income (Expense)	200,626	188,457	75,844	239,922
Income before Income Taxes and Minority Interest	306,524	295,766	183,171	345,259
Income tax expense	122,118	117,186	76,980	140,090
Income Before Minority Interest	184,406	178,580	106,191	205,169
Minority share of income	(11,939)	(11,821)	(9,135)	(11,190)
Net Income (Loss)	172,467	166,759	97,056	193,979
Preferred dividend requirement	(50)	(50)	(52)	(52)
Net Income Available to Common	$ 172,417	$ 166,709	$ 97,004	$ 193,927
Basic Earnings per Share	$ 1.49	$ 1.44	$ 0.84	$ 1.68
Diluted Earnings per Share	$ 1.48	$ 1.43	$ 0.83	$ 1.67

	Six Months Ended June 30, 2006 As Previously Reported	As Restated	June 30, 2005 As Previously Reported	As Restated
	(Dollars in thousands, except per share amounts)			
Operating Revenues	$ 2,126,222	$ 2,127,764	$ 1,905,646	$ 1,901,910
Operating Expenses				
Cost of service and products (exclusive of depreciation, amortization and accretion shown separately below)	747,402	745,865	684,576	685,810
Selling, general and administrative expense	801,185	803,987	696,576	697,779
Depreciation, amortization and accretion expense	362,652	363,419	338,323	338,052
Total Operating Expenses	1,911,239	1,913,271	1,719,475	1,721,641
Operating Income	214,983	214,493	186,171	180,269
Investment and Other Income (Expense)				
Equity in earnings of unconsolidated entities	42,296	42,296	32,942	32,492
Interest and dividend income	162,782	158,028	127,182	127,310
Interest expense	(117,820)	(117,820)	(106,388)	(106,388)
Fair value adjustment of derivative instruments	826	(11,738)	47	499,723
Gain on investments	91,418	91,418	500	500
Other income (expense), net	(1,868)	(1,868)	(11,076)	(11,076)
Total Investment and Other Income (Expense)	177,634	160,316	43,207	542,561
Income before Income Taxes and Minority Interest	392,617	374,809	229,378	722,830
Income tax expense	158,086	149,528	94,375	288,490
Income before Minority Interest	234,531	225,281	135,003	434,340
Minority share of income	(22,189)	(22,525)	(14,898)	(16,800)
Net Income	212,342	202,756	120,105	417,540
Preferred dividend requirement	(101)	(101)	(102)	(102)
Net Income Available to Common	$ 212,241	$ 202,655	$ 120,003	$ 417,438
Basic Earnings per Share	$ 1.83	$ 1.75	$ 1.04	$ 3.63
Diluted Earnings per Share	$ 1.82	$ 1.73	$ 1.03	$ 3.60

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

	Six Months Ended June 30, 2006 As Previously Reported (Dollars in thousands)	2006 As Restated	2005 As Previously Reported	2005 As Restated
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 212,342	$ 202,756	$ 120,105	$ 417,540
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities				
Depreciation, amortization and accretion	362,652	363,419	338,323	338,052
Bad debts expense	26,465	26,465	17,764	17,764
Stock-based compensation expense	13,022	14,653	4,086	4,086
Deferred income taxes	(32,531)	(41,091)	1,082	195,198
Equity in earnings of unconsolidated entities	(42,296)	(42,296)	(32,942)	(32,492)
Distributions from unconsolidated entities	37,399	37,399	28,210	27,914
Minority share of income	22,189	22,525	14,898	16,800
Fair value adjustment of derivative instruments	(826)	11,738	(47)	(499,723)
(Gain) loss on investments	(91,418)	(91,418)	(500)	(500)
Noncash interest expense	10,705	10,705	10,129	10,129
Other noncash expense	3,631	3,631	5,558	5,558
Changes in assets and liabilities				
Change in accounts receivable	(39,668)	(41,637)	(29,158)	(28,171)
Change in materials and supplies	10,503	10,503	22,020	22,020
Change in accounts payable	(47,956)	(47,956)	(46,352)	(46,303)
Change in customer deposits and deferred revenues	4,919	5,346	5,261	8,339
Change in accrued taxes	67,233	67,233	76,878	76,878
Change in other assets and liabilities	(27,572)	(32,485)	(16,963)	(17,759)
	488,793	479,490	518,352	515,330
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	(334,843)	(330,294)	(307,405)	(304,383)
Cash received from divestitures	722	722	500	500
Cash paid for acquisitions	(18,546)	(18,546)	(126,033)	(126,033)
Sales of investments	102,549	102,549		
Other investing activities	(2,887)	(2,887)	(1,271)	(1,271)
	(253,005)	(248,456)	(434,209)	(431,187)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of notes payable	195,000	195,000	310,000	310,000
Issuance of long-term debt	560	560	112,881	112,881
Repayment of notes payable	(225,000)	(225,000)	(290,000)	(290,000)
Repayment of long-term debt	(1,586)	(1,586)	(240,752)	(240,752)
Repayment of medium-term notes	(35,000)	(35,000)	(17,200)	(17,200)
TDS Common Shares and Special Common Shares issued for benefit plans	3,047	3,047	12,663	12,663
U.S. Cellular Common Shares issued for benefit plans	3,856	3,856	14,012	14,012
Capital (distributions) to minority partners	(7,613)	(7,613)	(810)	(810)
Dividends paid	(21,498)	(21,498)	(20,259)	(20,259)
Other financing activities	750	750	(6)	(6)
	(87,484)	(87,484)	(119,471)	(119,471)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	148,304	143,550	(35,328)	(35,328)
CASH AND CASH EQUIVALENTS				

Beginning of period	1,095,791	1,095,791	1,171,105	1,171,105
End of period	$ 1,244,095	$ 1,239,341	$ 1,135,777	$ 1,135,777

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

	June 30, 2006 As Previously Reported (Dollars in thousands)	2006 As Restated	December 31, 2005 As Previously Reported	2005 As Restated
CURRENT ASSETS				
Cash and cash equivalents	$ 1,244,095	$ 1,239,341	$ 1,095,791	$ 1,095,791
Accounts receivable				
Due from customers	343,353	339,627	336,005	332,278
Other, principally connecting companies	166,979	165,553	160,577	157,182
Marketable equity securities	272,938	272,938		
Materials and supplies, at average cost	93,922	93,922	103,211	103,211
Prepaid expenses	52,747	53,688	40,704	41,746
Deferred income tax asset			13,438	13,438
Other current assets	24,458	24,458	29,243	34,774
	2,198,492	2,189,527	1,778,969	1,778,420
INVESTMENTS				
Marketable equity securities	2,176,706	2,176,706	2,531,690	2,531,690
Licenses	1,370,369	1,370,369	1,365,063	1,365,063
Goodwill	874,100	886,476	869,792	882,168
Customer lists, net of accumulated amortization	45,117	37,998	49,318	47,649
Investments in unconsolidated entities	220,430	222,187	215,424	217,180
Other investments	11,760	11,760	12,274	12,274
	4,698,482	4,705,496	5,043,561	5,056,024
PROPERTY, PLANT AND EQUIPMENT, NET				
In service and under construction	7,441,768	7,431,878	7,140,447	7,131,977
Less accumulated depreciation	3,924,149	3,907,694	3,614,242	3,602,217
	3,517,619	3,524,184	3,526,205	3,529,760
OTHER ASSETS AND DEFERRED CHARGES	56,231	56,231	55,830	55,830
TOTAL ASSETS	$ 10,470,824	$ 10,475,438	$ 10,404,565	$ 10,420,034

	June 30, 2006 As Previously Reported (Dollars in thousands)	2006 As Restated	December 31, 2005 As Previously Reported	2005 As Restated
CURRENT LIABILITIES				
Current portion of long-term debt	$ 203,091	$ 203,091	$ 237,948	$ 237,948
Forward contracts	179,832	179,832		
Notes payable	105,000	105,000	135,000	135,000
Accounts payable	309,851	312,512	357,273	359,934
Customer deposits and deferred revenues	126,709	132,362	121,228	126,454
Accrued interest	29,212	29,212	28,946	28,946
Accrued taxes	119,310	112,663	47,180	46,061
Accrued compensation	54,495	54,495	67,443	67,443
Derivative liability	50,828	50,828		
Deferred income tax liability	44,669	44,669		
Other current liabilities	71,936	74,497	61,086	63,539
	1,294,933	1,299,161	1,056,104	1,065,325
DEFERRED LIABILITIES AND CREDITS				
Net deferred income tax liability	1,244,331	1,195,527	1,383,031	1,337,716
Derivative liability	413,054	413,054	449,192	449,192
Asset retirement obligation	173,779	200,529	163,093	190,382
Other deferred liabilities and credits	107,532	108,873	104,984	107,924
	1,938,696	1,917,983	2,100,300	2,085,214
LONG-TERM DEBT				
Long-term debt, excluding current portion	1,632,577	1,632,577	1,633,519	1,633,519
Forward contracts	1,536,563	1,536,563	1,707,282	1,707,282
	3,169,140	3,169,140	3,340,801	3,340,801
MINORITY INTEREST IN SUBSIDIARIES	573,041	566,881	552,884	546,833
PREFERRED SHARES	3,863	3,863	3,863	3,863
COMMON STOCKHOLDERS EQUITY				
Common Shares, par value $.01 per share	565	565	565	565
Special Common Shares, par value $.01 per share	629	629	629	629
Series A Common Shares, par value $.01 per share	64	64	64	64
Additional paid-in capital	1,833,617	1,837,354	1,826,420	1,828,634
Common Shares	(207,524)	(207,524)	(208,156)	(208,156)
Special Common Shares	(209,421)	(209,421)	(210,600)	(210,600)
Accumulated other comprehensive income	249,694	312,264	309,009	363,641
Retained earnings	1,823,527	1,784,479	1,632,682	1,603,221
	3,491,151	3,518,410	3,350,613	3,377,998
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 10,470,824	$ 10,475,438	$ 10,404,565	$ 10,420,034

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2. Summary of Significant Accounting Policies

Change in Accounting Principle   Stock-Based Compensation

TDS has established long-term incentive plans, employee stock purchase plans, dividend reinvestment plans, and a non-employee director compensation plan which are described more fully in Note 3   Stock-Based Compensation. Prior to January 1, 2006, TDS accounted for these plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25,   Accounting for Stock Issued to Employees   (APB 25   ), and related interpretations, as permitted by Financial Accounting Standards Board (FASB   ) Statement of Financial Accounting Standards (SFAS   ) No. 123,   Accounting for Stock-Based Compensation   . Total stock-based employee compensation cost recognized in the Consolidated Statements of Operations under APB 25 was $2.9 million and $4.1 million for the three and six months ended June 30, 2005, primarily for restricted stock unit and deferred compensation stock unit awards. No compensation cost was recognized in the Consolidated Statements of Operations under APB 25 for stock option awards for the three and six months ended June 30, 2005, because all outstanding options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The employee stock purchase plans and dividend reinvestment plans qualified as non-compensatory plans under APB 25; therefore, no compensation cost was recognized for these plans during the three and six months ended June 30, 2005.

Effective January 1, 2006, TDS adopted the fair value recognition provisions of SFAS No. 123(R),   Share-Based Payment   (SFAS 123(R)   ), using the modified prospective transition method. In addition, TDS applied the provisions of Staff Accounting Bulletin No. 107 (SAB 107   ), issued by the SEC in March 2005 in its adoption of SFAS 123(R). Under the modified prospective transition method, compensation cost recognized during the three and six months ended June 30, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated.

Under SFAS 123(R), the long-term incentive plans are considered compensatory plans; therefore, recognition of compensation costs for grants made under these plans is required.

Under SFAS 123(R), the employee stock purchase plans are considered compensatory plans; therefore, recognition of compensation costs for grants made under these plans is required. However, due to restrictions on activity under these plans that were in place during the six months ended June 30, 2006, no compensation expense was recognized during this period.

Under SFAS 123(R), the dividend reinvestment plans are not considered compensatory plans, therefore recognition of compensation costs for grants made under these plans is not required.

Upon adoption of SFAS 123(R), TDS elected to continue to value its share-based payment transactions using a Black-Scholes valuation model, which was previously used by TDS for purposes of preparing the pro forma disclosures under SFAS 123. Under the provisions of SFAS 123(R), stock-based compensation cost recognized during the period is based on the portion of the share-based payment awards that is ultimately expected to vest. Accordingly, stock-based compensation cost recognized in 2006 has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated based on historical experience related to similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. TDS believes that its historical experience is the best estimate of future expected life. In TDS   s pro forma information required under SFAS 123, TDS also reduced stock-based compensation cost for estimated forfeitures. The expected life assumption was determined based on TDS   s historical experience. For purposes of both SFAS 123 and SFAS 123(R), the expected volatility assumption was based on the historical volatility of TDS   s common stock. The dividend yield was included in the assumptions. The risk-free interest rate assumption was determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the stock options.

Compensation cost for stock option awards granted after January 1, 2006 will be recognized over the respective requisite service period of the awards, which is generally the vesting period, on a straight-line basis over the requisite service period for each separately vesting portion of the awards as if the awards were, in-substance, multiple awards (graded vesting attribution method), which is the same attribution method that was used by TDS for purposes of its pro forma disclosures under SFAS 123.

Certain employees were eligible for retirement at the time that compensatory stock options were granted. Under the terms of the TDS option agreements, options granted to these individuals do not vest upon retirement. Under the terms of the U.S. Cellular option agreements, options granted to these individuals will fully vest upon their retirement if they have reached the age of 65. Similarly, under the terms of TDS s restricted stock unit agreements, restricted stock units vest upon retirement if the employee has reached the age of 66. Under the terms of U.S. Cellular s restricted stock unit agreements, restricted stock units vest upon retirement if the employee has reached the age of 65. Prior to the adoption of SFAS 123(R), TDS used the nominal vesting method to recognize the pro forma stock-based compensation cost related to options and restricted stock units awarded to retirement-eligible employees. This method does not take into account the effect of early vesting due to the retirement of eligible employees. Upon adoption of SFAS 123(R), TDS adopted the non-substantive vesting method , which requires accelerated recognition of the entire cost of options granted to retirement-eligible employees over the period of time from the date of grant to the date such employees reach age 65. If the non-substantive vesting method had been applied in prior periods, the effect on previously disclosed pro forma stock-based compensation cost would not have been material.

On March 7, 2006, the TDS Compensation Committee approved amendments to stock option award agreements. The amendments modify current and future options to extend the exercise period until 30 days following (i) the lifting of a suspension if options otherwise would expire or be forfeited during the suspension period and (ii) the lifting of a blackout if options otherwise would expire or be forfeited during a blackout period. TDS temporarily suspended issuances of shares under the 2004 Long Term Incentive Plan between March 17, 2006 and October 10, 2006 as a consequence of late SEC filings. As required under the provisions of SFAS 123(R), TDS evaluated the impact of this plan modification and originally determined that the adjustment to stock based compensation was not material. However, in connection with the restatement discussed above, TDS further reviewed the accounting for the plan modification. Upon such further review, TDS determined that it should have recognized stock-based compensation expense of $1.6 million in the three months ended March 31, 2006 as a result of this modification. TDS recognized $0.0 million and $1.6 million in stock-based compensation expense in the three and six months ended June 30, 2006, respectively, as a result of this modification.

Pension Plan

TDS sponsors a qualified noncontributory defined contribution pension plan. The plan provides benefits for the employees of TDS Corporate, TDS Telecom and U.S. Cellular. Under this plan, pension benefits and costs are calculated separately for each participant and are funded currently. Pension costs were $4.4 million and $7.9 million for the three and six months ended June 30, 2006, respectively, and $3.3 million and $6.8 million for the three and six months ended June 30, 2005, respectively.

TDS also sponsors an unfunded non-qualified deferred supplemental executive retirement plan for certain employees which supplements the benefits under the qualified plan to offset the reduction of benefits caused by the limitation on annual employer contributions under the tax laws.

Other Postretirement Benefits

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

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2006	**2005**	**2006**	**2005**
	(Dollars in thousands)			
Service Cost	$ 545	$ 553	$ 1,089	$ 1,106
Interest on accumulated benefit obligation	691	659	1,383	1,318
Expected return on plan assets	(649)	(558)	(1,297)	(1,116)
Amortization of:				
Prior service cost	(207)	(280)	(415)	(559)
Net loss	292	289	584	577
Net postretirement cost	$ 672	$ 663	$ 1,344	$ 1,326

TDS contributed $5.3 million for its 2006 contribution to the postretirement plan assets.

Recent Accounting Pronouncements

The Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB 108), in September 2006. SAB 108 provides guidance on how the effects of the carryover or reversal of prior year financial statement misstatements should be considered in quantifying a current year misstatement. Prior practice allowed the evaluation of materiality on the basis of (1) the error quantified as the amount by which the current year income statement was misstated (rollover method) or (2) the cumulative error quantified as the cumulative amount by which the current year balance sheet was misstated (iron curtain method). Reliance on either method in prior years could have resulted in misstatement of the financial statements. The guidance provided in SAB 108 requires both methods to be used in evaluating materiality. Immaterial prior year errors may be corrected with the first filing of prior year financial statements after adoption. The cumulative effect of the correction would be reflected in the opening balance sheet with appropriate disclosure of the nature and amount of each individual error corrected in the cumulative adjustment, as well as a disclosure of the cause of the error and that the error had been deemed to be immaterial in the past. SAB 108 is effective for TDS s opening balance sheet in 2007. TDS is currently evaluating the impact this Bulletin might have on its financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands disclosure related to the use of fair value measures in financial statements. SFAS 157 does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in GAAP. The Standard emphasizes that fair value is a market-based measurement and not an entity-specific measurement based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). SFAS 157 establishes a fair value hierarchy from observable market data as the highest level to fair value based on an entity s own fair value assumptions as the lowest level. The Statement is to be effective for TDS s financial statements issued in 2008; however, earlier application is encouraged. TDS is currently evaluating the timing of adoption and the impact that adoption might have on its financial position or results of operations.

Also in September 2006, the FASB released Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). Under the new standard, companies must recognize a net liability or asset to report the funded status of their defined benefit pension and other postretirement benefit plans on their balance sheets. The recognition and disclosure provisions of SFAS 158 will be required to be adopted for TDS as of December 31, 2006. TDS is currently reviewing the requirements of SFAS 158 and has not yet determined the impact on its financial position or results of operations.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), was issued in July 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in an income tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. TDS is currently reviewing the requirements of FIN 48 to determine the impact on its financial position or results of operations.

3. Stock-Based Compensation

As a result of adopting SFAS 123(R) on January 1, 2006, TDS s income before income taxes for the three and six months ended June 30, 2006, was $4.0 million and $9.2 million lower, respectively, than if it had continued to account for share-based compensation under APB 25. Similarly, as a result of adopting SFAS 123(R) on January 1, 2006, TDS s net income for the three and six months ended June 30, 2006, was $2.0 million and $4.6 million lower, basic earnings per share for the three and six months ended June 30, 2006 was $0.02 and $0.04 lower, and diluted earnings per share for the three and six months ended June 30, 2006 was $0.02 and $0.04 lower, respectively, than if TDS had continued to account for stock-based compensation expense under APB 25.

<u>Stock-Based Compensation Expense</u>

For comparison, the following table illustrates the pro forma effect on net income and earnings per share had TDS applied the fair value recognition provisions of SFAS 123(R) to its stock-based employee compensation plans for the three and six months ended June 30, 2005:

(Dollars in thousands, except per share amounts)	**Three months ended June 30, 2005 (As Restated)**	**Six months ended June 30, 2005 (As Restated)**
Net income, as reported	$ 193,979	$ 417,540
Add: Stock-based compensation expense included in reported net income, net of related tax effects and minority interest	1,450	2,046
Deduct: Stock-based compensation expense determined under fair value based method for all awards, net of related tax effects and minority interest	(6,886)	(9,663)
Pro forma net income	$ 188,543	$ 409,923
Earnings per share:		
Basic as reported	$ 1.68	$ 3.63
Basic pro forma	1.64	3.56
Diluted as reported	1.67	3.60
Diluted pro forma	$ 1.62	$ 3.53

Prior to the adoption of SFAS 123(R), TDS presented all tax benefits resulting from tax deductions associated with the exercise of stock options by employees as cash flows from operating activities in the Consolidated Statements of Cash Flows. SFAS 123(R) requires that excess tax benefits be classified as cash flows from financing activities in the Consolidated Statement of Cash Flows. For this purpose, the excess tax benefits are tax benefits related to the difference between the total tax deduction associated with the exercise of stock options by employees and the amount of compensation cost recognized for those options. For the six months ended June 30, 2006, excess tax benefits of $0.4 million were included within Other Financing Activities of the Cash Flows from Financing Activities pursuant to this requirement of SFAS 123(R).

The following table summarizes stock-based compensation expense recognized during the three and six months ended June 30, 2006:

(Amounts in thousands)	Three months ended June 30, 2006	Six months ended June 30, 2006
Stock option awards	$ 4,038	$ 9,166
Restricted stock unit awards	3,336	6,087
Deferred compensation matching stock unit awards	(1,361)	(602)
Employee stock purchase plans		
Awards under non-employee director s compensation plan		2
Total stock-based compensation, before income taxes	6,013	14,653
Income tax benefit	(2,457)	(5,996)
Total stock-based compensation expense, net of income taxes	$ 3,556	$ 8,657

At June 30, 2006, unrecognized compensation cost for all stock-based compensation awards was $40.5 million. The unrecognized compensation cost for stock-based compensation awards at June 30, 2006 is expected to be recognized over a weighted average period of 0.8 years.

All stock-based compensation expense recognized during the three and six months ended June 30, 2006 was recorded in Selling, general and administrative expense.

TDS

The information in this section relates to stock-based compensation plans utilizing the equity instruments of TDS. Participants in these plans are generally employees of TDS Corporate and TDS Telecom, although U.S. Cellular employees are eligible to participate in the TDS Employee Stock Purchase Plan. Information related to plans utilizing the equity instruments of U.S. Cellular are shown in the U.S. Cellular section following the TDS section.

Under the TDS 2004 Long-Term Incentive Plan (and a predecessor plan), TDS may grant fixed and performance-based incentive and non-qualified stock options, restricted stock, restricted stock units, and deferred compensation stock unit awards to key employees. TDS had reserved 4,006,000 Common Shares and 11,893,000 Special Common Shares at June 30, 2006, for equity awards granted and to be granted under this plan. At June 30, 2006, the only types of awards outstanding are fixed non-qualified stock option awards, restricted stock unit awards, and deferred compensation stock unit awards. At June 30, 2006, TDS also had reserved 174,000 Common Shares and 323,000 Special Common Shares for issuance under the Automatic Dividend Reinvestment and Stock Purchase Plan and 49,000 Series A Common Shares for issuance under the Series A Common Share Automatic Dividend Reinvestment Plan, and 185,000 Common Shares and 320,000 Special Common Shares under an employee stock purchase plan. The maximum number of TDS Common Shares, TDS Special Common Shares and TDS Series A Common Shares that may be issued to employees under all stock-based compensation plans in effect at June 30, 2006 was 4,365,000, 12,536,000 and 49,000 shares, respectively. TDS currently utilizes treasury stock to satisfy stock option exercises, issuances under its employee stock purchase plan, restricted stock unit awards and deferred compensation stock unit awards. TDS has also created a Non-Employee Directors Plan under which it has reserved 33,000 Common Shares and 75,000 Special Common Shares of TDS stock for issuance as compensation to members of the board of directors who are not employees of TDS.

Stock Options Stock options granted to key employees are exercisable over a specified period not in excess of ten years. Stock options generally vest over periods up to four years from the date of grant. Stock options outstanding at June 30, 2006 expire between 2006 and 2016. However, vested stock options typically expire 30 days after the effective date of an employee s termination of employment for reasons other than retirement. Employees who leave at the age of retirement have 90 days (or one year if they satisfy certain requirements) within which to exercise their vested stock options. The exercise price of the option generally equals the market value of TDS common stock on the date of grant.

TDS granted 1,105,000 and 630,000 stock options during the three months ended June 30, 2006 and June 30, 2005, respectively. TDS granted 1,105,000 and 630,000 stock options during the six months ended June 30, 2006 and June 30, 2005, respectively. TDS estimates the fair value of stock options granted using the Black-Scholes valuation model. The fair value is then recognized as compensation cost on a straight-line basis over the requisite service period, which is generally the vesting period, for each separately vesting portion of the awards as if the awards were, in-substance, multiple awards, which is the same attribution method that was used by TDS for purposes of its pro forma disclosures under SFAS 123. TDS used the assumptions shown in the table below in valuing the options granted in 2006:

Expected Life	4.9 years	
Expected Annual Volatility Rate	25.9	%
Dividend Yield	0.97	%
Risk-free Interest Rate	4.8	%
Estimated Annual Forfeiture Rate	0.6	%

All TDS options outstanding at March 31, 2006 were granted prior to the distribution of the TDS Special Common Share Dividend in 2005, more fully described in TDS s 2005 Annual Report on Form 10-K. As a result of the Special Common Share Dividend, an employee will receive one Common Share and one Special Common Share per tandem option exercised. Each tandem option is exercisable at its original exercise price. TDS options granted after the distribution of the TDS Special Common Share Dividend will receive one Special Common Share per option exercised.

A summary of TDS stock options (total and portion exercisable) at June 30, 2006 and changes during the six months then ended is presented in the table and narrative below:

Tandem Options

	Number of Tandem Options(1)	**Weighted Average Exercise Prices**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2005 (2,461,000 exercisable)	2,701,000	$ 73.85	6.5 years	$ 36,166,000
Granted				
Exercised	23,000	$ 52.28		466,000
Forfeited	14,000	$ 57.17		351,000
Expired				
Outstanding at June 30, 2006 (2,599,000 exercisable)	2,664,000	$ 74.13	6.0 years	$ 35,185,000

(1) Upon exercise, each tandem option is converted into one TDS Common Share and one TDS Special Common Share.

Special Common Share Options

	Number of Options(2)	**Weighted Average Exercise Prices**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2005 (0 exercisable)				
Granted	1,105,000	$ 38.01	10.0 years	$ 988,000
Exercised				
Forfeited	6,000	38.00		5,000
Expired				
Outstanding at June 30, 2006 (0 exercisable)	1,099,000	$ 38.01	10.0 years	$ 983,000

(2) Upon exercise, each Special Common share option is converted into one TDS Special Common Share.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between TDS s closing stock price on the last trading day of the period and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2006. This amount will change in future periods based on the market price of TDS s stock. TDS received $0 and $1.2 million in cash from the exercise of stock options during the three and six months ended June 30, 2006.

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A summary of TDS s nonvested stock options at June 30, 2006 and changes during the six months then ended is presented in the tables that follow:

Tandem Options

	Number of Stock Options(1)	Weighted Average Fair Values of Stock Options
Nonvested at December 31, 2005	240,000	$ 21.67
Granted		
Vested	161,000	20.07
Forfeited	14,000	21.93
Nonvested at June 30, 2006	65,000	$ 25.55

(1) Upon exercise, each tandem stock option is converted into one TDS Common Share and one TDS Special Common Share.

Special Common Share Options

	Number of Stock Options(2)	Weighted Average Fair Values of Stock Options
Nonvested at December 31, 2005		
Granted	1,105,000	$ 11.00
Vested		
Forfeited	6,000	11.00
Nonvested at June 30, 2006	1,099,000	$ 11.00

(2) Upon exercise, each Special Common share option is converted into one TDS Special Common Share.

Restricted Stock Units Beginning in April 2005, TDS granted restricted stock unit awards to key employees. These awards generally vest after three years. All TDS restricted stock units outstanding at March 31, 2006 were granted prior to the distribution of the TDS Special Common Share Dividend in 2005. As a result of the Special Common Share Dividend, an employee will receive one Common Share and one Special Common Share upon the vesting of such restricted stock units. The restricted stock unit awards outstanding at March 31, 2006 will vest in December 2007. When vested, employees will receive an equal number of TDS Common Shares and TDS Special Common Shares with respect to such restricted stock units. Restricted stock unit awards granted after the distribution of the TDS Special Common Share Dividend in 2005 are convertible into one Special Common Share upon the vesting of such restricted stock units. The restricted stock unit awards granted in 2006 will vest in December 2008. When vested, employees will receive one TDS Special Common Share for each restricted stock unit.

TDS estimates the fair value of restricted stock units based on the closing market price of TDS shares on the date of grant. The fair value is then recognized as compensation cost on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

A summary of TDS nonvested restricted stock units at June 30, 2006 and changes during the six months then ended is presented in the table that follows:

Tandem Restricted Stock Units

	Number of Restricted Stock Units(1)	Weighted Average Fair Values of Restricted Stock Units
Nonvested at December 31, 2005	90,286	$ 77.55
Granted		

Vested			
Forfeited	386	78.10	
Nonvested at June 30, 2006	89,900	$	77.55

(1) Upon exercise, each tandem restricted stock unit is converted into one TDS Common Share and one TDS Special Common Share.

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Special Common Restricted Stock Units

	Number of Restricted Stock Units(2)	Weighted Average Fair Values of Restricted Stock Units
Nonvested at December 31, 2005		
Granted	105,000	$ 38.05
Vested		
Forfeited	1,000	38.00
Nonvested at June 30, 2006	104,000	$ 38.05

(2) Upon exercise, each Special Common restricted stock unit is converted into one TDS Special Common Share.

Deferred Compensation Stock Units Certain TDS employees 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, which is immediately vested, is deemed to be invested in TDS Common Share units or, at the election of the committee that administers the plan after the TDS Special Common Share Dividend in 2005, TDS Special Common Share units. TDS match amounts 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. When fully vested and upon distribution, employees will receive the vested TDS Common Shares and/or TDS Special Common Shares, as applicable.

TDS estimates the fair value of deferred compensation matching stock units based on the closing market price of TDS shares on the date of grant. The fair value of the matched stock units is then recognized as compensation cost on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

A summary of TDS nonvested deferred compensation stock unit plans at June 30, 2006 and changes during the six months then ended is presented in the table that follows:

Tandem Deferred Compensation Stock Units

	Number of Tandem Stock Units(1)	Weighted Average Fair Values of Stock Units
Nonvested at December 31, 2005	1,025	$ 75.05
Granted		
Vested		
Forfeited		
Nonvested at June 30, 2006	1,025	$ 75.05

(1) Upon exercise, each tandem deferred compensation stock unit outstanding at June 30, 2006 is converted into one TDS Common Share and one TDS Special Common Share.

Special Common Deferred Compensation Stock Units

	Number of Special Common Stock Units(2)	Weighted Average Fair Values of Stock Units
Nonvested at December 31, 2005		
Granted	1,500	$ 38.30
Vested		
Forfeited		
Nonvested at June 30, 2006	1,500	$ 38.30

(2) Upon exercise, each Special Common deferred compensation stock unit is converted into one TDS Special Common Share.

Employee Stock Purchase Plan Under the 2003 Employee Stock Purchase Plan, eligible employees of TDS and its subsidiaries may purchase a limited number of shares of TDS common stock on a quarterly basis. Prior to 2006, such common stock consisted of TDS Common Shares. Beginning in 2006, such common stock consisted of TDS Special Common Shares. TDS had reserved 185,000 Common Shares and 320,000 Special Common Shares at June 30, 2006 for issuance under this plan. The plan became effective on April 1, 2003 and will terminate on December 31, 2008. The per share cost to each participant is 85% of the market value of the Common Shares or Special Common Shares as of the issuance date. Under SFAS 123(R), the employee stock purchase plan is considered a compensatory plan; therefore recognition of compensation costs for stock issued under this plan is required. Compensation cost is measured as the difference between the cost of the shares to the plan participants and the fair market value of the shares on the date of issuance. However, due to restrictions on activity under these plans in place during the three and six months ended June 30, 2006, no compensation expense was recognized during this period.

Compensation of Non-Employee Directors TDS issued 0 and 2,600 shares under its Non-Employee Directors plan in the three and six months ended June 30, 2006.

Dividend Reinvestment Plans TDS had reserved 174,000 Common Shares and 323,000 Special Common Shares at June 30, 2006, for issuance under Automatic Dividend Reinvestment and Stock Purchase Plans and 49,000 Series A Common Shares for issuance under the Series A Common Share Automatic Dividend Reinvestment Plan. These plans enable holders of TDS s Common Shares, Special Common Shares and Preferred Shares to reinvest cash dividends in Common Shares and Special Common Shares and holders of Series A Common Shares to reinvest cash dividends in Series A Common Shares. The purchase price of the shares is 95% of the market value, based on the average of the daily high and low sales prices for TDS s Common Shares and Special Common Shares on the American Stock Exchange for the ten trading days preceding the date on which the purchase is made. Under SFAS 123(R) and SFAS 123, these plans are considered non-compensatory plans, therefore no compensation expense is recognized for stock issued under these plans.

U.S. Cellular

The information in this section relates to stock-based compensation plans utilizing the equity instruments of U.S. Cellular. Participants in these plans are employees of U.S. Cellular. U.S. Cellular employees are also eligible to participate in the TDS Employee Stock Purchase Plan. Information related to plans utilizing the equity instruments of TDS are shown in the previous section.

Under the U.S. Cellular 2005 Long-Term Incentive Plan, U.S. Cellular may grant fixed and performance-based incentive and non-qualified stock options, restricted stock, restricted stock units, and deferred compensation stock unit awards to key employees. At June 30, 2006, the only types of awards outstanding are fixed non-qualified stock option awards, restricted stock unit awards, and deferred compensation stock unit awards.

At June 30, 2006, U.S. Cellular had reserved 5,403,000 Common Shares for equity awards granted and to be granted under this plan and also had reserved 110,000 Common Shares for issuance to employees under an employee stock purchase plan. The maximum number of U.S. Cellular Common Shares that may be issued to employees under all stock-based compensation plans in effect at June 30, 2006 was 5,513,000 shares. U.S. Cellular currently utilizes treasury stock to satisfy stock option exercises, issuances under its employee stock purchase plan, restricted stock unit awards and deferred compensation stock unit awards. U.S. Cellular employees are also eligible to participate in the TDS Employee Stock Purchase Plan, which was described previously.

U.S. Cellular has also created a Non-Employee Director Compensation Plan under which it has reserved 4,900 Common Shares of U.S. Cellular at June 30, 2006 for issuance as compensation to members of the board of directors who are not employees of U.S. Cellular.

On March 7, 2006, the U.S. Cellular Compensation Committee, approved amendments to stock option award agreements. The amendments modify current and future options to extend the exercise period until 30 days following (i) the lifting of a suspension if options otherwise would expire or be forfeited during the suspension period and (ii) the lifting of a blackout if options otherwise would expire or be forfeited during a blackout period. U.S. Cellular temporarily suspended issuances of shares under the 2005 Long Term Incentive Plan between March 17, 2006 and October 10, 2006 as a consequence of late SEC filings. As required under the provisions of SFAS 123(R), U.S. Cellular evaluated the impact of this plan modification and originally determined that the adjustment to stock based compensation was not material. However, in connection with the restatement discussed above, U.S. Cellular further reviewed the accounting for the plan modification. Upon such further review, U.S. Cellular determined that it should have recognized Stock-Based compensation expense of $1.5 million in the three months ended March 31, 2006 as a result of this modification. U.S. Cellular recognized $0.0 million and $1.5 million in stock-based compensation expense in the three and six months ended June 30, 2006, respectively, as a result of this modification.

Stock Options Stock options granted to key employees are exercisable over a specified period not in excess of ten years. Stock options generally vest over periods up to four years from the date of grant. Stock options outstanding at June 30, 2006 expire between 2006 and 2016. However, vested stock options typically expire 30 days after the effective date of an employee s termination of employment for reasons other than retirement. Employees who leave at the age of retirement have 90 days (or one year if they satisfy certain requirements) within which to exercise their vested stock options. The exercise price of the option generally equals the market value of U.S. Cellular Common Shares on the date of grant.

U.S. Cellular granted 551,000 and 16,000 stock options during the three months ended June 30, 2006 and June 30, 2005, respectively. U.S. Cellular granted 551,000 and 757,000 stock options during the six months ended June 30, 2006 and June 30, 2005, respectively. U.S. Cellular estimates the fair value of stock options granted using the Black-Scholes valuation model. The fair value is then recognized as compensation cost on a straight-line basis over the requisite service period, which is generally the vesting period, for each separately vesting portion of the awards as if the awards were, in-substance, multiple awards, which is the same attribution method that was used by U.S. Cellular for purposes of its pro forma disclosures under SFAS 123. U.S. Cellular used the assumptions shown in the table below in valuing the options granted in 2006:

Expected Life	3.0 years	
Expected Annual Volatility Rate	25.2	%
Dividend Yield		
Risk-free Interest Rate	4.7	%
Estimated Annual Forfeiture Rate	4.4	%

A summary of U.S. Cellular stock options outstanding (total and portion exercisable) at June 30, 2006 and changes during the six months then ended is presented in the table below:

	Number of Options	**Weighted Remaining Exercise Prices**	**Weighted Average Average Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2005 (877,000 exercisable)	2,701,000	$ 38.80	7.5 years	$ 58,871,000
Granted	551,000	59.46		629,000
Exercised	107,000	34.51		2,259,000
Forfeited	29,000	39.60		615,000
Expired	1,000	32.23		34,000
Outstanding at June 30, 2006 (1,528,000 exercisable)	3,115,000	$ 42.61	7.6 years	$ 56,044,000

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The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between U.S. Cellular s closing stock price on the last trading day of the period and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2006. This amount will change in future periods based on the market price of U.S. Cellular s stock. U.S. Cellular received $0 and $3.7 million in cash from the exercise of stock options during the three and six months ended June 30, 2006.

A summary of U.S. Cellular nonvested stock options at June 30, 2006 and changes during the six months then ended is presented in the table that follows:

	Number of Stock Options	Weighted Average Fair Values of Stock Options
Nonvested at December 31, 2005	1,824,000	$ 14.19
Granted	551,000	14.06
Vested	761,000	14.47
Forfeited	26,000	14.22
Nonvested at June 30, 2006	1,588,000	$ 14.01

Restricted Stock Units U.S. Cellular grants restricted stock unit awards to key employees, which generally vest after three years.

U.S. Cellular estimates the fair value of restricted stock units based on the closing market price of U.S. Cellular shares on the date of grant, which is not adjusted for any dividends foregone during the vesting period because U.S. Cellular has never paid a dividend and has expressed its intention to retain all future earnings in the business. The fair value is then recognized as compensation cost on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Awards granted under this plan prior to 2005 were classified as liability awards due to a plan provision which allowed participants to elect tax withholding in excess of minimum statutory tax rates. In 2005, this provision was removed from the plan and awards after 2005 have been classified as equity awards.

A summary of U.S. Cellular nonvested restricted stock units at June 30, 2006 and changes during the six months then ended is presented in the tables that follow:

Liability Classified Awards

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Values of Restricted Stock Units
Nonvested at December 31, 2005	193,000	$ 30.71
Granted	3,000	59.43
Vested	108,000	23.73
Forfeited	1,000	33.96
Nonvested at June 30, 2006	87,000	$ 40.36

Equity Classified Awards

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Values of Restricted Stock Units
Nonvested at December 31, 2005	189,000	$ 45.63
Granted	125,000	59.43
Vested		
Forfeited	5,000	45.63

Nonvested at June 30, 2006	309,000	$	51.21

Long-Term Incentive Plan Deferred Compensation Stock Units Certain U.S. Cellular employees may elect to defer receipt of all or a portion of their annual bonuses and to receive a company matching contribution on the amount deferred. All bonus compensation that is deferred by employees electing to participate is immediately vested and is deemed to be invested in U.S. Cellular Common Share stock units. Upon vesting and distribution of such stock units, participants will receive U.S. Cellular Common Shares. The amount of U.S. Cellular s matching contribution depends on the portion of the annual bonus that is deferred. Participants receive a 25% 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; such matching contributions also are deemed to be invested in U.S. Cellular Common Share stock units. The matching contribution stock units vest ratably at a rate of one-third per year over three years. Upon vesting and distribution of such matching contribution stock units, participants will receive U.S. Cellular Common Shares.

U.S. Cellular estimates the fair value of deferred compensation matching contribution stock units based on the closing market price of U.S. Cellular Common Shares on the date of match. The fair value of such matching contribution stock units is then recognized as compensation cost on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

A summary of U.S. Cellular nonvested deferred compensation stock units at June 30, 2006 and changes during the six months ended is presented in the table below:

	Number of Stock Units	**Weighted Average Fair Values of Stock Units**
Nonvested at December 31, 2005	7,700	$ 41.08
Granted	1,700	56.71
Vested	3,700	37.31
Forfeited		
Nonvested at June 30, 2006	5,700	$ 45.48

Employee Stock Purchase Plan Under the 2003 Employee Stock Purchase Plan, eligible employees of U.S. Cellular and its subsidiaries may purchase a limited number of U.S. Cellular Common Shares on a quarterly basis. U.S. Cellular had reserved 110,000 Common Shares at June 30, 2006 for issuance under this plan. The plan became effective on April 1, 2003 and will terminate on December 31, 2008. U.S. Cellular employees are also eligible to participate in the TDS Employee Stock Purchase Plan, which was described previously. The per share cost to each participant in these plans is 85% of the market value of the Common Shares or Special Common Shares as of the issuance date. Under SFAS 123(R), the employee stock purchase plans are considered compensatory plans; therefore, recognition of compensation costs for stock issued under these plans is required. Compensation cost is measured as the difference between the cost of the shares to plan participants and the fair market value of the shares on the date of issuance. However, due to restrictions on activity under these plans in place during the three and six months ended June 30, 2006, no compensation expense was recognized during this period for either plan.

Compensation of Non-Employee Directors U.S. Cellular issued 0 and 40 shares under its Non-Employee Director Compensation Plan in the three and six months ended June 30, 2006.

Prior to the adoption of SFAS 123(R), U.S. Cellular presented all tax benefits resulting from tax deductions associated with the exercise of stock options by employees as cash flows from operating activities in the Consolidated Statements of Cash Flows. SFAS 123(R) requires that excess tax benefits be classified as cash flows from financing activities in the Consolidated Statement of Cash Flows. For this purpose, the excess tax benefits are tax benefits related to the difference between the total tax deduction associated with the exercise of stock options by employees and the amount of compensation cost recognized for those options. For the six months ended June 30, 2006, excess tax benefits of $0.3 million were included in cash flows from financing activities in the Consolidated Statements of Cash Flows pursuant to this requirement of SFAS 123(R).

4. Income Taxes

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

	Three Months Ended June 30, 2006 (As Restated)	2005 (As Restated)	Six Months Ended June 30, 2006 (As Restated)	2005 (As Restated)
Effective Income Tax (Benefit) Rate From:				
Operations excluding gain on investments and fair value adjustment of derivative instruments	40.9 %	41.8 %	40.9 %	40.8 %
Gain on investments and fair value adjustment of derivative instruments(1)	36.3 %	39.3 %	36.1 %	39.5 %
Income before income taxes and minority interest	39.6 %	40.6 %	39.9 %	39.9 %

(1) In the second quarter of 2006, TDS Telecom recorded gains of $91.4 million. See Note 5 Gains on Investments. Also included in these amounts are fair value adjustment of derivative instruments. See Note 6 Fair Value Adjustment of Derivative Instruments.

In June of 2006, the Internal Revenue Service commenced its audit of the 2002 2004 consolidated federal tax returns of TDS and subsidiaries. The audit is in its preliminary stages.

5. Gain on Investment

TDS Telecom has in the past obtained financing from the Rural Telephone Bank (RTB). In connection with such financings, TDS Telecom purchased stock in the RTB. TDS Telecom has repaid all of its debt to the RTB, but continued to own the RTB stock. In August 2005, the board of directors of the RTB approved resolutions to liquidate and dissolve the RTB. In order to effect the dissolution and liquidation, shareholders were asked to remit their shares to receive cash compensation for those shares. TDS Telecom remitted its shares and received $101.7 million from the RTB and recorded a gain of $90.3 million in the second quarter of 2006.

6. Fair Value Adjustment of Derivative Instruments

Fair value adjustment of derivative instruments totaled a loss of $11.8 million and $11.7 million in the three and six months ended June 30, 2006, respectively and a gain of $164.3 million and $499.7 million in the three and six months ended June 30, 2005, respectively. Fair value adjustment of derivative instruments reflects the change in the fair value of the bifurcated embedded collars within the forward contracts related to the Deutsche Telekom and Vodafone marketable equity securities not designated as a hedge. The changes in fair value of the embedded collars, during cash flow hedge designation are recorded to other comprehensive income. When the collars are de-designated in cash flow hedge, subsequent changes in fair value are recognized in the Consolidated Statement of Operations, along with the related income tax effects. The accounting for the embedded collars as derivative instruments not designated in a hedging relationship results in increased volatility in the results of operations, as fluctuation in the market price of the underlying Deutsche Telekom and Vodafone marketable equity securities results in changes in the fair value of the embedded collars being recorded in the consolidated statement of operations. Also included in the fair value adjustment of derivative instruments are the gains and losses related to the ineffectiveness of the VeriSign fair value hedge which aggregated an unrealized gain of $0.4 million and $0.8 million in the three and six months ended June 30, 2006, respectively, and an unrealized gain of $0.1 million and $0.1 million in the three and six months ended June 30, 2005, respectively.

7. Earnings per Share

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

TDS distributed one Special Common Share in the form of a stock dividend with respect to each outstanding Common Share and Series A Common Share of TDS on May 13, 2005 to shareholders of record on April 29, 2005. As a result of the Special Common Share Dividend, each option outstanding on May 13, 2005 was converted into a tandem option for one Common Share and one Special Common Share at the same exercise price per tandem option exercised.

The net income amounts used in computing earnings per share and the effects on the weighted average number of common and Series A Common Shares and earnings per share of potentially dilutive stock options are as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2006 (As Restated)	**2005 (As Restated)**	**2006 (As Restated)**	**2005 (As Restated)**
	(Dollars and shares in thousands, except earnings per share)			
Basic Earnings per Share:				
Net income	$ 166,759	$ 193,979	$ 202,756	$ 417,540
Preferred dividend requirement	(50)	(52)	(101)	(102)
Net income available to common used in basic earnings per share	$ 166,709	$ 193,927	$ 202,655	$ 417,438
Diluted Earnings per Share:				
Net income available to common used in basic earnings per share	$ 166,709	$ 193,927	$ 202,655	$ 417,438
Minority income adjustment (1)	(371)	(309)	(617)	(457)
Preferred dividend adjustment (2)	50	50	100	100
Net income available to common used in diluted earnings per share	$ 166,388	$ 193,668	$ 202,138	$ 417,081
Weighted average number of shares of common stock used in basic earnings per share:				
Common Shares	51,485	51,182	51,478	51,128
Special Common Shares	57,836	57,612	57,829	57,556
Series A Common Shares	6,447	6,430	6,447	6,428
Weighted average number of shares of common stock used in basic earnings per share	115,768	115,224	115,754	115,112
Effects of Dilutive Securities:				
Effects of stock options (3)	710	582	659	661
Conversion of preferred shares	162	153	163	153
Weighted average number of shares of common stock used in diluted earnings per share	116,640	115,959	116,576	115,926
Basic Earnings per Share	$ 1.44	$ 1.68	$ 1.75	$ 3.63
Diluted Earnings per Share	$ 1.43	$ 1.67	$ 1.73	$ 3.60

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

(2) The preferred dividend adjustment reflects the dividend reduction in the event any preferred series were dilutive, and therefore converted for shares.

(3) Stock options convertible into 896,409 Common Shares and 2,001,128 Special Common Shares were not included in computing Diluted Earnings per Share in the three months ended June 30, 2006, because their effects were not dilutive to earnings per share. Stock options convertible into 1,293,284 Common Shares and 2,398,003 Special Common Shares were not included in computing Diluted Earnings per Share in the six months ended June 30, 2006, because their effects were not dilutive to earnings per share. Stock options convertible into 1,091,147 Common Shares and 861,112 Special Common Shares were not included in computing Diluted Earnings per Share in the three and six months ended June 30, 2005 because their effects were not dilutive to earnings per share.

8. Marketable Equity Securities and Forward Contracts

TDS and its subsidiaries hold a substantial amount of marketable equity securities that are publicly traded and can have volatile movements in share prices. TDS and its subsidiaries do not make direct investments in publicly traded companies and all of these interests were acquired as a result of sales, trades or reorganizations of other assets.

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

	June 30, 2006 (As Restated) (Dollars in thousands)		**December 31, 2005 (As Restated)**	
Marketable Equity Securities Current Assets				
Vodafone Group Plc 10,245,370 and 0 American Depositary Receipts, respectively(1)	$ 218,226		$	
VeriSign, Inc. 2,361,333 and 0 Common Shares, respectively	54,712			
Aggregate fair value included in Current Assets	272,938			
Marketable Equity Securities - Investments				
Deutsche Telekom AG - 131,461,861 Ordinary Shares	2,111,277		2,191,469	
Vodafone Group Plc 2,700,545 and 12,945,915 American Depositary Receipts, respectively(1)	57,522		277,949	
VeriSign, Inc. - 0 and 2,361,333 Common Shares			51,760	
Rural Cellular Corporation - 719,396 equivalent Common Shares	7,906		10,511	
Other	1		1	
Aggregate fair value included in investments	2,176,706		2,531,690	
Total aggregate fair value	2,449,644		2,531,690	
Accounting cost basis	1,543,677		1,543,677	
Gross holding gains	905,967		988,013	
Gross realized holding gains	(27,651	)	(24,700	)
Gross unrealized holding gains	878,316		963,313	
Equity method unrealized gains	352		543	
Income tax (expense)	(344,359	)	(377,845	)
Minority share of unrealized holding gains	(7,410	)	(7,738	)
Unrealized holding gains, net of tax and minority share	526,899		578,273	
Derivative instruments, net of tax and minority share	(214,635	)	(214,632	)
Accumulated other comprehensive income	$ 312,264		$ 363,641	

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(1) See Note 22 Subsequent Events for a discussion of the Share Consolidation and Special Distribution related to the Vodafone ADRs that was effected on July 28, 2006. As a result of the Share Consolidation, the aggregate number of ADRs was reduced from 12,945,915 to 11,327,674.

The investment in Deutsche Telekom AG (Deutsche Telekom) resulted from TDS s disposition of its over 80%-owned personal communication services operating subsidiary, Aerial Communications, Inc., to VoiceStream Wireless Corporation (VoiceStream) in exchange for stock of VoiceStream, which was then acquired by Deutsche Telekom in exchange for Deutsche Telekom stock. The investment in Vodafone Group Plc (Vodafone) resulted from certain dispositions of non-strategic cellular investments to or settlements with AirTouch Communications Inc. (AirTouch), in exchange for stock of AirTouch, which was then acquired by Vodafone whereby TDS and its subsidiaries received American Depositary Receipts representing Vodafone stock. The investment in VeriSign, Inc. (VeriSign) is the result of the acquisition by VeriSign of Illuminet, Inc., a telecommunication entity in which several TDS subsidiaries held interests. The investment in Rural Cellular Corporation (Rural Cellular) is the result of a consolidation of several cellular partnerships in which TDS subsidiaries held interests in Rural Cellular, and the distribution of Rural Cellular stock in exchange for these interests.

TDS has entered into a number of forward contracts related to the marketable equity securities it holds. The economic hedge risk management objective of the forward contracts is to hedge the value of the marketable equity securities from losses due to decreases in the market prices of the securities while retaining a share of gains from increases in the market prices of such securities. The downside risk is hedged at or above the accounting cost basis of the securities.

See Note 15 Long-Term Debt and Forward Contracts for additional information related to forward contracts.

The forward contracts related to U.S. Cellular s 10,245,370 Vodafone ADRs and TDS s 2,361,333 VeriSign common shares mature in May 2007. Accordingly, the Vodafone ADRs and VeriSign common shares are classified as Current Assets and the related forward contracts and derivative liability are classified as Current Liabilities in the Consolidated Balance Sheets at June 30, 2006.

9. Licenses and Goodwill

TDS has substantial amounts of licenses and goodwill as a result of the acquisition of wireless markets, and the acquisition of operating telephone companies. Changes in licenses and goodwill result primarily from acquisitions, divestitures and impairments.

A summary of activity in goodwill for the six months ended June 30, 2006 and 2005 is provided below. TDS Telecom s incumbent local exchange carriers are designated as ILEC and its competitive local exchange carrier is designated as CLEC .

(Dollars in thousands)	**U.S. Cellular (As Restated)**	**TDS Telecom ILEC (As Restated)**	**CLEC**	**Other (1)**	**Total (As Restated)**
Balance December 31, 2005	$ 481,235	$ 398,652	$	$ 2,281	$ 882,168
Acquisitions	3,990				3,990
Other Adjustments	318				318
Balance June 30, 2006	$ 485,543	$ 398,652	$	$ 2,281	$ 886,476
Balance December 31, 2004	$ 454,830	$ 398,652	$	$ 2,281	$ 855,763
Acquisitions	150				150
Other	(10)				(10)
Balance June 30, 2005	$ 454,970	$ 398,652	$	$ 2,281	$ 855,903

(1) Other consists of goodwill related to Suttle Straus.

See Note 18 Acquisitions, Divestitures and Exchanges below for additional information related to transactions which affected licenses and goodwill.

Licenses and goodwill must be reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. TDS and U.S. Cellular perform the annual impairment review on licenses and goodwill during the second quarter of their fiscal year. Accordingly, the annual impairment tests for licenses and goodwill for 2006 and 2005 were performed in the second quarter of 2006 and 2005. Such impairment tests indicated that there was not impairment of licenses or goodwill in 2006 or 2005.

10. Unconsolidated Entities

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

TDS s significant investments in unconsolidated entities include the following:

	June 30, 2006		June 30, 2005	
Los Angeles SMSA Limited Partnership	5.5	%	5.5	%
Midwest Wireless Communications, L.L.C. (1)	14.2	%	14.2	%
North Carolina RSA 1 Partnership	50.0	%	50.0	%
Oklahoma City SMSA Limited Partnership	14.6	%	14.6	%

(1) In addition, as of June 30, 2006, U.S. Cellular owned a 49% interest in an entity which owns an interest of approximately 2.9% in Midwest Wireless Holdings, L.L.C., the parent company of Midwest Wireless Communications, L.L.C. See Note 22 Subsequent Events, for information about the disposition of this interest.

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

	Three Months Ended June 30, 2006 (Dollars in thousands)	2005	Six Months Ended June 30, 2006	2005
Results of operations				
Revenues	$ 1,025,000	$ 831,000	$ 2,018,000	$ 1,615,000
Operating expenses	703,000	579,000	1,391,000	1,123,000
Operating income	322,000	252,000	627,000	492,000
Other income (expense), net (1)	14,000	7,000	22,000	14,000
Net Income	$ 336,000	$ 259,000	$ 649,000	$ 506,000

(1) Includes income tax related to small corporations.

See Note 22 Subsequent Events for additional information related to TDS s investment in Midwest Wireless Communications, L.L.C.

11. Customer Lists

Customer lists acquired in connection with purchases and exchanges of wireless markets are being amortized based on average customer retention periods using the double declining balance method in the first year, switching to straight-line over the remaining estimated life. The acquisition of certain minority interests in the six months ended June 30, 2006 and 2005 added $2.0 million and $0.6 million, respectively, to the gross balance of customer lists. Customer list amortization expense was $6.0 million and $11.7 million for the three and six months ended June 30, 2006, respectively, and $2.3 and $5.2 million for the three and six months ended June 30, 2005, respectively. Amortization expense for the remainder of 2006 and for the years 2007-2011 is expected to be $11.8 million, $9.8 million, $7.2 million, $5.4 million, $3.7 million and $0.1 million, respectively.

12. Property, Plant and Equipment

In accordance with FASB SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , TDS reviews long-lived assets, including property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. TDS did not record any impairment losses on property, plant and equipment in 2006 or 2005.

13. Revolving Credit Facilities

TDS has a $600 million revolving credit facility available for general corporate purposes. At June 30, 2006, letters of credit outstanding were $3.4 million, leaving $596.6 million available for use. Borrowings under the revolving credit facility bear interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on TDS s credit rating. TDS may select borrowing periods of either seven days or one, two, three or six months. At June 30, 2006, one-month LIBOR was 5.33% and the contractual spread was 60 basis points. If TDS provides less than two days notice of intent to borrow, interest on borrowings is at the prime rate less 50 basis points (the prime rate was 8.25% at June 30, 2006). This credit facility expires in December 2009.

TDS also has $50 million of direct bank lines of credit at June 30, 2006, all of which were unused. The terms of the direct lines of credit bear negotiated interest rates up to the prime rate (the prime rate was 8.25% at June 30, 2006). Direct bank lines of credit totaling $25 million expired on June 23, 2006 and were renewed subsequent to June 30, 2006.

U.S. Cellular has a $700 million revolving credit facility available for general corporate purposes. At June 30, 2006, outstanding notes payable and letters of credit were $105.0 million and $0.5 million, respectively, leaving $594.5 million available for use. Borrowings under the revolving credit facility bear interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on U.S. Cellular s credit rating. U.S. Cellular may select borrowing periods of either seven days or one, two, three or six months. At June 30, 2006, the one-month LIBOR was 5.33% and the contractual spread was 60 basis points. If U.S. Cellular provides less than two days notice of intent to borrow, interest on borrowings is the prime rate less 50 basis points (the prime rate was 8.25% at June 30, 2006). This credit facility expires in December 2009.

TDS s and U.S. Cellular s interest cost on their revolving credit facilities would increase if their current credit ratings from either Standard & Poor s or Moody s were lowered. However, the credit facilities would not cease to be available or accelerate solely as a result of a decline in TDS s or U.S. Cellular s credit rating. A downgrade in TDS s or U.S. Cellular s credit rating could adversely affect their ability to renew existing, or obtain access to new, credit facilities in the future. At June 30, 2006, TDS s and U.S. Cellular s credit ratings are as follows:

Moody s Investor Service	Baa3	under review for possible further downgrade
Standard & Poor s	A-	on credit watch with negative implications
Fitch	BBB+	on ratings watch negative

The maturity dates of certain of TDS s and U.S. Cellular s revolving credit facilities would accelerate in the event of a change in control. The continued availability of the revolving credit facilities requires TDS and U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and represent certain matters at the time of each borrowing. On November 10, 2005, TDS and U.S. Cellular announced that they would restate certain financial statements which caused TDS and U.S. Cellular to be late in certain SEC filings. The restatements and late filings resulted in defaults under the revolving credit facilities and one line of credit facility. However, TDS and U.S. Cellular were not in violation of any covenants that require TDS and U.S. Cellular to maintain certain financial ratios and did not fail to make any scheduled payments. TDS and U.S. Cellular received waivers from the lenders associated with the revolving credit facilities, under which the lenders agreed to waive any defaults that may have occurred as a result of the restatements and late filings.

As disclosed in Note 1, TDS and its audit committee concluded on November 6, 2006 to restate the Consolidated Financial Statements as of and for the three years ended December 31, 2005. TDS and its audit committee also concluded that TDS would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006 to restate the Consolidated Financial Statements and financial information included therewith. The restatement resulted in defaults under the revolving credit agreements and one line of credit agreement. TDS and U.S. Cellular were not in violation of any covenants that require TDS and U.S. Cellular to maintain certain financial ratios. TDS and U.S. Cellular did not fail to make any scheduled payments under such credit agreements. TDS and U.S. Cellular received waivers from the lenders associated with the credit agreements, under which the lenders agreed to waive any defaults that may have occurred as a result of the restatement. The waivers require the Form 10-K/A for the year ended December 31, 2005, the Forms 10-Q/A for the quarterly periods ended March 31, 2006 and June 30, 2006 and the Form 10-Q for the quarterly period ended September 30, 2006 to be filed by March 14, 2007.

On October 26, 2006, Standard & Poor s Rating Services lowered its credit ratings on TDS and U.S. Cellular to BBB+ from A-. The outlook was stable. On November 7, 2006, Standard & Poor s Rating Services lowered its credit ratings on TDS and U.S. Cellular to BBB from BBB+. The ratings were placed on credit watch with negative implications. On February 13, 2007, Standard & Poor s Rating Services lowered its credit ratings on TDS and U.S. Cellular to BBB- from BBB. The ratings remain on credit watch with negative implications. The credit ratings by Moody s Investors Service remain Baa3 under review for possible further downgrade. The credit ratings by Fitch remain BBB+ on ratings watch negative.

14. Asset Retirement Obligations

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

U.S. Cellular is subject to asset retirement obligations associated primarily with its cell sites, retail sites and office locations. Asset retirement obligations generally include obligations to remediate leased land on which U.S. Cellular s cell sites and switching offices are located. U.S. Cellular is also generally required to return leased retail store premises and office space to their pre-existing conditions.

TDS Telecom s incumbent local exchange carriers have recorded an asset retirement obligation in accordance with the requirements of SFAS No. 143 and FIN 47, and a regulatory liability for the costs of removal that state public utility commissions have required to be recorded for regulatory accounting purposes. The amounts recorded for regulatory accounting purposes are in addition to the amounts required to be recorded in accordance with SFAS No 143 and FIN 47. These amounts combined make up the asset retirement obligation for the incumbent local exchange carriers. The asset retirement obligation calculated in accordance with the provisions of SFAS No. 143 and FIN 47 at June 30, 2006 was $37.6 million. The regulatory liability in excess of the amounts required to be recorded in accordance with SFAS No. 143 and FIN 47 at June 30, 2006 was $61.9 million.

In accordance with the requirements of SFAS No. 143 and FIN 47, TDS Telecom s competitive local exchange carrier has calculated an asset retirement obligation of $2.7 million at June 30, 2006.

The table below summarizes the changes in asset retirement obligations during the first six months of 2006. TDS Telecom s incumbent local exchange carriers are designated as ILEC in the table and its competitive local exchange carrier is designated as CLEC .

	U.S. Cellular	**TDS Telecom ILEC (As Restated) (Dollars in thousands)**	**CLEC**	**TDS Consolidated (As Restated)**
Beginning Balance December 31, 2005	$ 90,224	$ 97,509	$ 2,649	$ 190,382
Additional liabilities accrued	3,414	2,349		5,763
Acquisition of assets	1,237			1,237
Disposition of assets	(37)	(406)		(443)
Accretion expense	3,481			