TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-Q/A
January 19, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended **September 30, 2004**

OR

¨ 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 ý No ¨

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

Yes ý No ¨

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 September 30, 2004
Common Shares, $.01 par value	50,979,842 Shares
Series A Common Shares, $.01 par value	6,419,611 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 quarter ended September 30, 2004, which was originally filed with the Securities and Exchange Commission ("SEC") on November 9, 2004 (the "Quarterly Report"), to amend Item 1 "Financial Statements," Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") and Item 4 "Controls and Procedures".

TDS is filing this amendment to restate the Consolidated Financial Statements as of and for the nine months ended September 30, 2004 for the presentation of accreted interest paid on the redemption of U.S. Cellular's Liquid Yield Option Notes ("LYONs"). The restatement reclassifies the $68.1 million accreted interest portion of the LYONs that were redeemed in July 2004 from a reduction in "cash flows from financing activities" to a reduction in "cash flows from operating activities" on the Consolidated Statements of Cash Flows. Certain discussions in MD&A related to cash flows from operating and financing activities have been revised to reflect the change in classification of the LYONs' accreted interest. This restatement had no effect on TDS's "Net increase (decrease) in cash and cash equivalents" for the nine months ended September 30, 2004, and only changed the classification of cash flow items. The restatement of the Consolidated Statements of Cash Flows had no impact on revenues, expenses, net income, earnings per share, or any Balance Sheet items.

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

Except as expressly stated herein, this amendment does not update any of the disclosures contained in the original filing to reflect any events that occurred after the original filing date of November 9, 2004. The filing of this Form 10-Q/A shall not be deemed an admission that the original filing, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

TELEPHONE AND DATA SYSTEMS, INC.
3RD QUARTER REPORT ON FORM 10-Q/A
INDEX

* Previously included in TDS's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2004, filed on November 9, 2004.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003 As Restated	2004	2003 As Restated
	(Dollars in thousands, except per share amounts)			
OPERATING REVENUES	$ 968,780	$ 882,387	$ 2,773,880	$ 2,555,079
OPERATING EXPENSES				
Cost of services and products (exclusive of Depreciation, amortization and accretion expense shown below)	349,024	294,372	977,647	866,054
Selling, general and administrative expense	375,314	311,170	1,049,015	963,137
Depreciation, amortization and accretion expense	169,462	144,238	489,325	440,367
Loss on impairment of intangible assets				49,595
(Gain) loss on assets of operations held for sale		(1,442)	(725)	23,619
Total Operating Expenses	893,800	748,338	2,515,262	2,342,772
OPERATING INCOME	74,980	134,049	258,618	212,307
INVESTMENT AND OTHER INCOME (EXPENSE)				
Investment income	19,579	11,644	52,741	37,911
Interest and dividend income	6,227	4,426	14,369	14,823
Interest (expense)	(52,135)	(41,604)	(147,378)	(128,957)
Minority interest in income of subsidiary trust		(4,273)		(16,678)
Loss on investments	(491)		(2,321)	(8,500)

Other income (expense), net	(3,975)	(8,550)	(6,649)	(14,488)
Total Investment and Other Income (Expense)	(30,795)	(38,357)	(89,238)	(115,889)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	44,185	95,692	169,380	96,418
Income Tax Expense	17,864	38,828	69,246	47,446
INCOME BEFORE MINORITY INTEREST	26,321	56,864	100,134	48,972
Minority Share of Income	(5,521)	(13,448)	(18,208)	(14,756)
INCOME FROM CONTINUING OPERATIONS	20,800	43,416	81,926	34,216
Discontinued Operations, Net of Tax	4,351	(1,609)	4,351	(1,609)
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	25,151	41,807	86,277	32,607
Cumulative Effect of Accounting Change, Net of Tax and Minority Interest				(11,789)
NET INCOME	25,151	41,807	86,277	20,818
Preferred Dividend Requirement	(51)	(104)	(152)	(312)
NET INCOME AVAILABLE TO COMMON	$ 25,100	$ 41,703	$ 86,125	$ 20,506
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	57,321	57,420	57,253	57,829
BASIC EARNINGS PER SHARE (Note 10)				
Income from Continuing Operations	$ 0.36	$ 0.76	$ 1.42	$ 0.58
Discontinued Operations	0.08	(0.03)	0.08	(0.03)
Cumulative Effect of Accounting Change				(0.20)
Net Income Available to Common	$ 0.44	$ 0.73	$ 1.50	$ 0.35
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	57,615	57,866	57,520	57,924
DILUTED EARNINGS PER SHARE (Note 10)				
Income from Continuing Operations	$ 0.35	$ 0.75	$ 1.41	$ 0.58
Discontinued Operations	0.08	(0.03)	0.08	(0.03)
Cumulative Effect of Accounting Change				(0.20)
Net Income Available to Common	$ 0.43	$ 0.72	$ 1.49	$ 0.35
DIVIDENDS PER SHARE	$ 0.165	$ 0.155	$ 0.495	$ 0.465

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

	Nine Months Ended September 30,	
	2004 As Restated	2003 As Restated
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 86,277	$ 20,818
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	489,325	440,367
Deferred income taxes	57,661	28,918
Investment income	(52,741)	(37,911)
Minority share of income	18,208	14,756
Loss on impairment of intangible assets		49,595
(Gain) loss on assets of operations held for sale	(725)	23,619
Loss on investments	2,321	8,500
Discontinued operations	(4,351)	1,609
Cumulative effect of accounting change		11,789
Noncash interest expense	19,966	19,868
Other noncash expense	18,127	27,236
Accreted interest on repayment of U.S. Cellular long-term debt	(68,056)	
Changes in assets and liabilities		
Change in accounts receivable	(47,333)	76,360
Change in materials and supplies	9,462	15,373
Change in accounts payable	(70,833)	(105,287)
Change in customer deposits and deferred revenues	11,906	15,212
Change in accrued taxes	6,538	31,119
Change in other assets and liabilities	(182)	(27,000)
	475,570	614,941
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(496,674)	(537,525)
Cash received from sale of assets	96,932	
Acquisitions, net of cash acquired	(40,367)	(1,251)
Proceeds from exchange transaction		33,958
Distributions from unconsolidated entities	23,718	21,685
Other investing activities	(10,498)	(3,015)
	(426,889)	(486,148)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of notes payable	355,000	282,596
Issuance of long-term debt	420,316	900
Repayments of notes payable	(300,000)	(273,020)
Repayment of Trust Originated Preferred Securities		(300,000)
Repayment of medium-term notes		(70,500)
Repayment of U.S. Cellular long-term debt	(345,232)	(40,680)
Repayment of other long-term debt	(21,488)	(14,570)
Repurchase of TDS Common shares	(20,440)	(56,522)
Stock options exercised	29,591	5,246
Dividends paid	(28,520)	(27,186)
Other financing activities	5,649	146
	94,876	(493,590)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	143,557	(364,797)
CASH AND CASH EQUIVALENTS -		
Beginning of period	937,651	1,298,936
End of period	$ 1,081,208	$ 934,139

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

4

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
ASSETS

Unaudited

	September 30, 2004	December 31, 2003
	(Dollars in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	$ 1,081,208	$ 937,651
Accounts receivable		
Due from customers, less allowance of $21,286 and $18,908, respectively	312,786	282,313
Other, principally connecting companies, less allowance of $7,699 and $6,419, respectively	131,598	127,358
Materials and supplies, at average cost	76,572	87,270
Other current assets	82,906	70,354
	1,685,070	1,504,946
INVESTMENTS		
Marketable equity securities	2,800,015	2,772,410
Wireless license costs	1,184,014	1,189,326
Wireless license rights	42,037	42,037
Goodwill	852,124	887,937
Customer lists, net of accumulated amortization of $32,128 and $22,206, respectively	27,417	24,448
Investments in unconsolidated entities	215,629	214,885
Notes receivable, less valuation allowance of $55,144 and $55,144, respectively	5,252	6,476
Other investments	18,284	15,439
	5,144,772	5,152,958
PROPERTY, PLANT AND EQUIPMENT, NET		
U.S. Cellular	2,307,966	2,271,254
TDS Telecom	1,036,106	1,079,732
	3,344,072	3,350,986

OTHER ASSETS AND DEFERRED CHARGES	90,398	83,925
ASSETS OF OPERATIONS HELD FOR SALE	115,970	100,523
TOTAL ASSETS	$ 10,380,282	$ 10,193,338

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

5

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
LIABILITIES AND STOCKHOLDERS' EQUITY

Unaudited

	September 30, 2004	December 31, 2003
	(Dollars in thousands)	
CURRENT LIABILITIES		
Current portion of long-term debt	$ 23,476	$ 23,712
Notes payable	55,000	
Accounts payable	278,893	361,010
Customer deposits and deferred revenues	119,162	108,372
Accrued interest	31,802	31,884
Accrued taxes	110,931	46,107
Accrued compensation	68,034	69,290
Other current liabilities	60,194	56,570
	747,492	696,945
DEFERRED LIABILITIES AND CREDITS		
Net deferred income tax liability	1,386,260	1,285,024
Derivative liability	664,926	712,252
Asset retirement obligations	132,938	124,501
Other	58,865	119,076
	2,242,989	2,240,853
LONG-TERM DEBT		
Long-term debt, excluding current portion	1,997,145	1,994,913
Prepaid forward contracts	1,685,354	1,672,762
	3,682,499	3,667,675
LIABILITIES OF OPERATIONS HELD FOR SALE	4,216	2,427
MINORITY INTEREST IN SUBSIDIARIES	502,419	502,702

PREFERRED SHARES	3,864	3,864
COMMON STOCKHOLDERS' EQUITY		
Common Shares, par value $.01 per share; authorized 100,000,000 shares; issued 56,366,000 and 56,282,000 shares, respectively	564	563
Series A Common Shares, par value $.01 per share; authorized 25,000,000 shares; issued and outstanding 6,420,000 and 6,440,000 shares; respectively	64	64
Capital in excess of par value	1,816,752	1,843,468
Treasury Shares, at cost, 5,386,000 and 5,688,000 shares, respectively	(452,263)	(493,714)
Accumulated other comprehensive income	342,258	296,820
Retained earnings	1,489,428	1,431,671
	3,196,803	3,078,872
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 10,380,282	$ 10,193,338

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accounting policies of Telephone and Data Systems, Inc. (TDS) conform to accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of TDS and its majority-owned subsidiaries, including TDS s 82.0%-owned wireless telephone subsidiary, United States Cellular Corporation (U.S. Cellular), and its 100%-owned wireline telephone subsidiary, TDS Telecommunications Corporation (TDS Telecom), and wireless partnerships in which TDS has a majority general partnership interest or a controlling financial interest. In addition, as of January 1, 2004, the consolidated financial statements include all entities where TDS has a variable interest that will absorb a majority of the entity s expected losses. All material intercompany accounts and transactions have been eliminated.

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

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 September 30, 2004, and the results of operations for the three and nine months ended September 30, 2004 and 2003 and the cash flows for the nine months ended September 30, 2004 and 2003. The results of operations for the three and nine months ended September 30, 2004, are not necessarily indicative of the results to be expected for the full year.

2. Restatements and Reclassifications

Restatement of September 30, 2004 Consolidated Statements of Cash Flows

TDS is filing this amendment to restate the Consolidated Financial Statements as of and for the nine months ended September 30, 2004 for the presentation of accreted interest paid on the redemption of U.S. Cellular's Liquid Yield Option Notes ("LYONs"). The restatement reclassifies the $68.1 million accreted interest portion of the LYONs that were redeemed in July 2004 from a reduction in "cash flows from financing activities" to a reduction in "cash flows from operating activities" on the Consolidated Statements of Cash

Flows, as indicated in the table below. Certain discussions in MD&A related to cash flows from operating and financing activities have been revised to reflect the change in classification of the LYONs' accreted interest. This restatement had no effect on TDS's "Net increase (decrease) in cash and cash equivalents" for the nine months ended September 30, 2004, and only changed the classification of certain cash flow items. The restatement of the Consolidated Statements of Cash Flows had no impact on revenues, expenses, net income, earnings per share, or any Balance Sheet items.

(Dollars in thousands)	Nine Months Ended September 30, 2004		
Caption of Consolidated Statements of Cash Flows	**As Previously Reported**	**Reclassification**	**As Restated**
Cash Flows from Operating Activities	$ 543,626	$ (68,056)	$ 475,570
Cash Flows from Financing Activities	26,820	68,056	94,876
Net Increase (Decrease) in Cash and Cash Equivalents	$ 143,557	$ 0	$ 143,557

7

Wireless License Costs and Goodwill Restatements

On May 14, 2004, TDS restated its 2003 and 2002 financial statements relating to the implementation of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, which was adopted on January 1, 2002. Prior to January 1, 2002, TDS allocated the excess of purchase price of wireless properties over tangible assets and liabilities acquired to wireless license costs and goodwill. At that time, the accounting treatment for TDS s wireless license costs and goodwill was the same for book purposes, with both asset classes amortized over an expected life of 40 years. However, no deferred taxes were provided on the amounts allocated to goodwill.

Based upon a subsequent review of goodwill, TDS restated the allocation of $138.9 million of purchase price recorded as goodwill to wireless license costs as of January 1, 2002, the date of the adoption of SFAS No. 142. In connection with this restatement, an additional deferred tax liability of $90.7 million was recorded as of January 1, 2002. The additional deferred tax liability recorded in conjunction with this restatement increased the carrying value of wireless license costs by a corresponding $90.7 million. Following these adjustments, TDS reperformed the impairment tests for its wireless license costs as of January 1, 2002, and recorded an impairment loss of $20.9 million, before an income tax benefit of $8.2 million and minority interest of $2.3 million. This impairment was recorded as a cumulative effect of an accounting change at January 1, 2002, the date of the adoption of SFAS No. 142.

In the first quarter of 2003, TDS had recorded a Loss on assets of operations held for sale related to the pending disposition of certain wireless properties. The wireless license costs upon which the impairment was recorded in the first quarter of 2002 included the wireless license costs of these properties. As a result, a portion of the originally recognized Loss on assets of operations held for sale in the first quarter of 2003 was recognized in the first quarter of 2002. Consequently, Loss on assets of operations held for sale in the first quarter of 2003 was reduced by $1.9 million, before an income tax benefit of $0.8 million and minority interest of $0.2 million. In the third quarter of 2003, TDS had originally recorded an income tax expense upon the closing of the disposition of such wireless properties. This tax expense was reduced due to the reversal of additional deferred tax liabilities that were recorded with respect to the wireless properties exchanged in conjunction with the restatement from goodwill to investment in licenses. Consequently, income tax expense in 2003 was reduced by $10.7 million and minority interest by $1.9 million.

In addition, as a result of the restatement discussed above, TDS also reperformed the annual impairment test for its wireless license costs for 2003, which was originally performed during the second quarter of 2003. This resulted in the recognition of an additional impairment loss of $49.6 million, before an income tax benefit of $19.6 million and minority interest of $5.4 million in the second quarter of 2003.

Retention Reclassifications

Certain amounts reported in prior years have been reclassified to conform to the current period presentation. Prior to the fourth quarter of 2003, costs for equipment sold by U.S. Cellular to retain current customers were included in selling, general and administrative expense. These costs were partially offset by equipment sales revenues received from these customers. In the fourth quarter of 2003, TDS changed its policy for classifying retention costs and reclassified U.S. Cellular equipment sales revenue and cost of equipment sold related to the retention of current customers out of selling, general and administrative expense and into operating revenues and cost of services and products, respectively, for each period presented. These reclassifications have been reflected in the three and nine months ended September 30, 2003. These reclassifications increased operating revenues for the three and nine months ended September 30, 2003 by $7.6 million and $21.6 million, respectively, and increased cost of services and products by $23.5 million and $69.6 million, respectively, from the amounts originally reported. Selling, general and administrative expense was reduced by $15.9 million and $48.0 million, respectively, from the amounts originally reported in the results for the three and nine months ended September 30, 2003 to reflect the amounts reclassified to operating revenues and cost of services and products. These reclassifications did not have any impact on income from operations, net income, earnings per share, financial position or cash flows of TDS for the three and nine months ended September 30, 2003.

A summary of the changes to the affected captions on the statements of operations for the three and nine months ended September 30, 2003 related to the above reclassifications and restatements are included below:

	Three Months Ended September 30, 2003			
(Dollars in thousands, except per share amounts)		Effects of 2003 Changes		
Statement of Operations:	As Previously Reported (1)	Wireless License Costs and Goodwill Restatements	Retention Reclass-ifications	As Restated
Operating Revenues (2)	$ 874,754	$	$ 7,633	$ 882,387
Operating Expenses				
Cost of services and products (2)	270,829		23,543	294,372
Selling, general and administrative expense (2)	327,080		(15,910)	311,170
Depreciation, amortization and accretion expense	144,238			144,238
Loss on impairment of intangible assets				
(Gain) loss on assets of operations held for sale	(1,442)			(1,442)
Total Operating Expenses	740,705		7,633	748,338
Operating Income	134,049			134,049
Income before income taxes and minority interest	95,692			95,692
Income tax expense (3)	49,541	(10,713)		38,828
Minority share of income	(11,537)	(1,911)		(13,448)
Income from continuing operations	34,614	8,802		43,416
Discontinued operations	(1,609)			(1,609)
Income before cumulative effect of accounting change	33,005	8,802		41,807
Cumulative effect of accounting change				
Net income	$ 33,005	$ 8,802	$	$ 41,807
Basic Weighted Average Shares Outstanding (000s)	57,420			57,420
Basic Earnings per Share				
Income from continuing operations	$ 0.60	$ 0.16	$	$ 0.76

Discontinued operations		(0.03)					(0.03)
Cumulative effect of accounting change							
Net income available to common	$	0.57	$	0.16	$	$	0.73
Diluted Weighted Average Shares Outstanding (000s)		57,793		73			57,866
Diluted Earnings per Share							
Income from continuing operations	$	0.60	$	0.15	$	$	0.75
Discontinued operations		(0.03)					(0.03)
Cumulative effect of accounting change							
Net income available to common	$	0.57	$	0.15	$	$	0.72

(1) Amounts as previously reported in amendment No. 2 to the September 30, 2003 Quarterly Report on Form 10-Q filed March 10, 2004.
(2) Prior to the fourth quarter of 2003, TDS included costs for equipment sold to retain current U.S. Cellular customers in selling, general and administrative expense, partially offset by equipment sales revenues received from these customers. In the fourth quarter of 2003, TDS changed its policy for classifying retention costs and has reclassified the equipment sales revenues and cost of equipment sold related to the retention of current U.S. Cellular customers out of selling, general and administrative expense into operating revenues and cost of services and products, respectively. This change was reflected retrospectively in each of the first three quarters of 2003.
(3) In the third quarter of 2003, TDS had originally recorded an income tax expense upon the closing of the disposition of certain wireless properties by U.S. Cellular. This tax expense was reduced due to the reversal of additional deferred tax liabilities that were recorded with respect to the wireless properties exchanged in conjunction with the restatement from goodwill to wireless license costs. Consequently, income tax expense in 2003 was reduced by $10.7 million.

9

(Dollars in thousands, except per share amounts)

Statement of Operations:	Nine Months Ended September 30, 2003			
		Effects of 2003 Changes		
	As Previously Reported (1)	Wireless License Costs and Goodwill Restatements	Retention Reclass-ifications	As Restated
Operating Revenues (2)	$ 2,533,459	$	$ 21,620	$ 2,555,079
Operating Expenses				
Cost of services and products (2)	796,415		69,639	866,054
Selling, general and administrative expense (2)	1,011,156		(48,019)	963,137
Depreciation, amortization and accretion expense	440,367			440,367
Loss on impairment of intangible assets		49,595		49,595
(Gain) loss on assets of operations held for sale (3)	25,558	(1,939)		23,619
Total Operating Expenses	2,273,496	47,656	21,620	2,342,772
Operating Income	259,963	(47,656)		212,307
Income before income taxes and minority interest	144,074	(47,656)		96,418
Income tax expense (3)	76,988	(29,542)		47,446
Minority share of income (3)	(17,988)	3,232		(14,756)
Income from continuing operations	49,098	(14,882)		34,216
Discontinued operations	(1,609)			(1,609)

Income before cumulative effect of accounting change	47,489	(14,882)		32,607
Cumulative effect of accounting change	(11,789)			(11,789)
Net income	$ 35,700	$ (14,882)	$	$ 20,818
Basic Weighted Average Shares Outstanding (000s)	57,829			57,829
Basic Earnings per Share				
Income from continuing operations	$ 0.84	$ (0.26)	$	$ 0.58
Discontinued operations	(0.03)			(0.03)
Cumulative effect of accounting change	(0.20)			(0.20)
Net income available to common	$ 0.61	$ (0.26)	$	$ 0.35
Diluted Weighted Average Shares Outstanding (000s)	57,924			57,924
Diluted Earnings per Share				
Income from continuing operations	$ 0.84	$ (0.26)	$	$ 0.58
Discontinued operations	(0.03)			(0.03)
Cumulative effect of accounting change	(0.20)			(0.20)
Net income available to common	$ 0.61	$ (0.26)	$	$ 0.35

(1) Amounts as previously reported in amendment No. 2 to the September 30, 2003 Quarterly Report on Form 10-Q filed March 10, 2004.

(2) Prior to the fourth quarter of 2003, TDS included costs for equipment sold to retain current U.S. Cellular customers in selling, general and administrative expense, partially offset by equipment sales revenues received from these customers. In the fourth quarter of 2003, TDS changed its policy for classifying retention costs and has reclassified the equipment sales revenues and cost of equipment sold related to the retention of current U.S. Cellular customers out of selling, general and administrative expense into operating revenues and cost of services and products, respectively. This change was reflected retrospectively in each of the first three quarters of 2003.

(3) The reductions to the (Gain) loss on assets of operations held for sale and related income tax expense and minority interest are the result of impairment losses recorded on wireless license costs in 2002. Also, in the third quarter of 2003, TDS had originally recorded an income tax expense upon the closing of the disposition of certain wireless properties by U.S. Cellular. This tax expense was reduced due to the reversal of additional deferred tax liabilities that were recorded with respect to the wireless properties exchanged in conjunction with the restatement from goodwill to wireless license costs. Consequently, income tax expense in 2003 was reduced by $10.7 million.

10

3. Summary of Significant Accounting Policies

Operating Lease Revenue and Expense

During the third quarter of 2004, TDS revised its accounting for certain operating leases that contain fixed rental increases to recognize lease revenue and expense on a straight-line basis over the lease term in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases, as amended, and related pronouncements. Pursuant to its revised accounting for such leases, TDS recorded out-of-period adjustments to operating revenues and operating expenses during the third quarter of 2004. The adjustments were not considered material to the current year or any prior years earnings, earnings trends or individual financial statement line items. The adjustments were recorded in the current quarter ended September 30, 2004, and no prior periods were adjusted. The impact of the out-of-period adjustments on the affected line items in TDS s consolidated statements of operations for the three and nine months ended September 30, 2004 is as follows:

Three months ended September 30, 2004

TDS Telecom

(Dollars in thousands, except earnings per share)

Increase (decrease)	U.S. Cellular	ILEC	CLEC	All Other	Total
Operating revenues	$ 980	$ 120	$	$	$ 1,100
Cost of services and products	2,892	85			2,977
Selling, general and administrative expense	1,848	396	583		2,827
Total operating expenses	4,740	481	583		5,804
Operating income	(3,760)	(361)	(583)		(4,704)
Other income (expense) net				(1,701)	(1,701)
Income before income taxes and minority interest					(6,405)
Net income					$ (3,432)
Basic earnings per share					$ (0.06)
Diluted earnings per share					$ (0.06)

Nine months ended September 30, 2004

(Dollars in thousands, except earnings per share)

		TDS Telecom			
Increase (decrease)	U.S. Cellular	ILEC	CLEC	All Other	Total
Operating revenues	$ 821	$ 69	$	$	$ 890
Cost of services and products	2,334	50			2,384
Selling, general and administrative expense	1,606	223	454		2,283
Total operating expenses	3,940	273	454		4,667
Operating income	(3,119)	(204)	(454)		(3,777)
Other income (expense) net				(1,589)	(1,589)
Income before income taxes and minority interest					(5,366)
Net income					$ (2,880)
Basic earnings per share					$ (0.05)
Diluted earnings per share					$ (0.05)

Variable Interest Entities

TDS accounts for variable interest entities in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R (FIN 46R). This interpretation modifies the requirements for consolidation of investments previously contained in Accounting Research Bulletin No. 51, Consolidated Financial Statements. Under FIN 46R, certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties are considered variable interest entities and are potentially subject to consolidation by an investor other than the investor with the majority equity interest. The adoption of FIN 46R in January 2004 resulted in the inclusion of one additional wireless market in TDS s consolidated operations. The operations of such additional market did not have a material impact on TDS s financial position or results of operations.

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 September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Dollars in thousands)			
Service Cost	$ 591	$ 419	$ 1,772	$ 1,257
Interest on accumulated benefit obligation	665	620	1,995	1,860
Expected return on plan assets	(337)	(299)	(1,011)	(898)
Amortization of:				
Prior service cost	(179)	(32)	(536)	(96)
Net loss	237	123	712	371
Net postretirement cost	$ 977	$ 831	$ 2,932	$ 2,494

TDS has contributed $6.9 million to the postretirement plan assets during 2004.

Pension Plan

TDS sponsors a qualified noncontributory defined contribution pension plan. The plan provides benefits for the employees of TDS Corporate, TDS Telecom and U.S. Cellular. Under this plan, pension benefits and costs are calculated separately for each participant and are funded currently. Pension costs were $3.2 million and $9.2 million for the three and nine months ended September 30, 2004, respectively, and were $3.3 million and $8.9 million for the three and nine months ended September 30, 2003, respectively.

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

Stock-Based Compensation

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

No compensation costs have been recognized for stock options in 2004 because, under TDS s stock option plans, the option exercise price for each grant is equal to the quoted stock price at the grant date. During 2003, TDS recorded compensation cost of $0.3 million related to certain options granted with exercise prices that were less than the market price on the grant date. This expense was recognized during the fourth quarter of 2003.

No compensation costs have been recognized for employee stock purchase plans because the purchase price is not less than 85 percent of the fair market value of the stock at the purchase date. Had compensation cost for all plans been determined consistent with SFAS No. 123, TDS s net income available to common and earnings per share would have been reduced to the following pro forma amounts:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003 As Restated	2004	2003 As Restated
	(Dollars in thousands, except per share amounts)			
Net Income Available to Common				
As Reported	$ 25,100	$ 41,703	$ 86,125	$ 20,506
Pro Forma Expense	(5,706)	(4,600)	(13,989)	(8,988)
Pro Forma Net Income Available to Common	$ 19,394	$ 37,103	$ 72,136	$ 11,518
Basic Earnings per Share				
As Reported	$ 0.44	$ 0.73	$ 1.50	$ 0.35
Pro Forma Expense per Share	(0.10)	(0.08)	(0.24)	(0.15)
Pro Forma Basic Earnings per Share	$ 0.34	$ 0.65	$ 1.26	$ 0.20
Diluted Earnings per Share				
As Reported	$ 0.43	$ 0.72	$ 1.49	$ 0.35
Pro Forma Expense per Share	(0.10)	(0.08)	(0.24)	(0.15)
Pro Forma Diluted Earnings per Share	$ 0.33	$ 0.64	$ 1.25	$ 0.20

Recent Accounting Pronouncements

Health Care Benefits

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was enacted. The Act expands Medicare coverage, primarily by adding a prescription drug benefit for Medicare-eligible participants starting in 2006. The Act provides employers currently sponsoring prescription drug programs for Medicare-eligible participants with a range of options for coordinating with the new government-sponsored program to potentially reduce employers costs. These options include supplementing the government program on a secondary payor basis or accepting a direct subsidy from the government to support a portion of the cost of the employer s program.

TDS has reviewed the impact of the Act on the TDS retiree medical plan, and has concluded that the plan is not expected to provide benefits which are the actuarial equivalent of the standard Medicare Part D benefit. Therefore, TDS would not be eligible to receive the federal subsidy offered under the Act.

The FASB published guidance on the accounting for the government subsidy in FSP 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, that is effective beginning July 1, 2004. As a result of the conclusion that the plan is not expected to qualify for the federal subsidy, TDS believes that the effect of the Act on the TDS retiree medical plan is not a significant event pursuant to paragraph 73 of SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, and TDS did not remeasure plan assets and obligations as of the effective date of FSP 106-2.

TDS intends to clarify the plan s design to advise participants that all retiree benefits will be coordinated with Medicare. The effects of this plan clarification will be recognized in future periods after the changes are finalized and communicated to employees.

Earnings per Share

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share. EITF 03-6 clarifies what constitutes a participating security and provides further guidance in applying the two-class method of calculating earnings per share. The consensuses reached by the Task Force on EITF Issue No. 03-6 were ratified by the FASB on March 31, 2004, and are effective for reporting periods beginning after March 31, 2004. TDS has reviewed this Issue and concluded that it has no participating securities as defined by EITF Issue No. 03-6.

4. Income Taxes

Net income available to common shareholders includes Loss on investments, Loss on impairment of intangible assets and (Gain) loss on assets of operations held for sale for the three and nine months ended September 30, 2004 and 2003, which had a significant effect on the effective tax rate in each period. The effective tax rate for the nine month period was 40.9% in 2004 and 49.2% in 2003 including the tax effect of such losses and gains. The effective tax rate is higher in 2003 as a result of the tax benefit of $28.2 million recorded on Loss on investments, Loss on impairment of intangible assets and (Gain) loss on assets of operations held for sale in 2003 being at a lower effective tax rate than the effective tax rate of the tax expense on operations, increasing the overall effective tax rate above the effective tax rate from operations. TDS recorded a tax expense of $11.6 million in the third quarter of 2004 related to the announced sale of certain assets to ALLTEL Communications, Inc. (ALLTEL). This transaction is expected to close in the fourth quarter 2004 and is discussed in Note 21 Acquisitions, Divestitures and Exchanges.

Excluding the tax effects of losses and gains, the effective tax rate on operations for the nine month period was 32.7% in 2004 and 42.4% in 2003. The 2004 effective tax rate on operations excluding losses and gains is lower than 2003 due to favorable settlements of several tax issues in 2004. During the third quarter of 2004, the Internal Revenue Service substantially completed its audit of TDS s federal income tax returns for the years 1997 through 2001 and claims for research tax credits for prior periods. Primarily based on the results of the audit, TDS reduced its accrual for audit contingencies by $6.8 million in the third quarter of 2004. Also in the quarter, TDS recorded a $5.6 million benefit for the research tax credits that were allowed in the federal income tax audit.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003 As Restated	2004	2003 As Restated
Effective Tax (Benefit) Rate From:				
Operations excluding Loss on investments, Loss on impairment of intangible assets and (Gain) loss on assets of operations held for sale (1)	14.5%	42.2%	32.7%	42.4%
Loss on investments, Loss on impairment of intangible assets, and (Gain) loss on assets of operations held for sale (2)(3)	NM	(63.2)%	NM	(34.5)%
Income from continuing operations before income taxes, minority interest and cumulative effect of accounting changes	40.4%	40.6%	40.9%	49.2%

NM - Not Meaningful

(1) The 2004 effective tax rates on operations excluding Loss on investments, Loss on impairment of intangible assets and (Gain) loss on assets of operations held for sale are lower than 2003 due to favorable settlements of federal income tax audits and allowance of research tax credits.
(2) The 2004 effective tax rates on Loss on investments, Loss on impairment of intangible assets and (Gain) loss on assets of operations held for sale are not meaningful primarily because TDS recorded a tax expense of $11.6 million in the third quarter of 2004 related to the pending sale of certain assets to ALLTEL. The transaction with ALLTEL is expected to close in the fourth quarter 2004.
(3) The 2003 effective tax rates reflect tax benefits of $0.9 million in the third quarter of 2003 and $28.2 million in the nine months ended September 30, 2003 from Loss on investments, Loss on impairment of intangible assets and (Gain) loss on assets of operations held for sale.

5. Loss on Impairment of Intangible Assets

Loss on impairment of intangible assets totaled $49.6 million in the first nine months of 2003. As discussed previously, TDS restated 2003 and 2002 financial statements relating to the implementation of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. In connection with this restatement, TDS reperformed the annual impairment test for its investment in licenses for 2003, which was originally performed during the second quarter of 2003. This resulted in the recognition of an additional impairment loss of $49.6 million, before an income tax benefit of $19.6 million and minority interest of $5.4 million.

The 2004 annual impairment tests for investments in licenses and goodwill were performed in the second quarter of 2004. Other than a license impairment loss recorded as a Loss on investments related to a non-operating market, no impairment losses resulted from the 2004 annual impairment tests. See Note 7 Loss on Investments for a discussion of this license impairment loss.

6. (Gain) Loss on Assets of Operations Held for Sale

TDS recorded an estimated Loss on assets of operations held for sale of $22.0 million in the fourth quarter of 2003 related to the sale of U.S. Cellular s wireless properties in southern Texas to AT&T Wireless Services, Inc. (AT&T Wireless). In the nine months ended September 30, 2004, TDS reduced the loss by $0.7 million for a total loss of $21.3 million. The loss represents the difference between the book value of the markets sold to AT&T Wireless and the cash received in the transaction when it was completed.

TDS reported a Loss on assets of operations held for sale of $23.6 million in the nine months ended September 30, 2003 representing the difference between the carrying value of the Georgia and Florida wireless markets U.S. Cellular transferred to AT&T Wireless and the fair value of the assets received in the exchange transaction. This exchange transaction was completed on August 1, 2003.

See Note 21 Acquisitions, Divestitures and Exchanges for further information on both transactions with AT&T Wireless.

7. Loss on Investments

TDS reported Loss on investments of $2.3 million in the nine months ended September 30, 2004. TDS recorded a $1.8 million loss to reflect an impairment in the carrying value of a license held in a non-operational market in Florida that remained with U.S. Cellular after the exchange with AT&T Wireless was completed. In September 2004, U.S. Cellular entered into an agreement to sell this market to MetroPCS California/Florida, Inc. (MetroPCS). No gain or loss is expected to be recorded on this sale. In September 2004, TDS also recorded a $0.5 million impairment loss ($0.3 million net of taxes of $0.2 million) on an investment in a telephone company accounted for using the cost method.

TDS reported Loss on investments of $8.5 million in the nine months ended September 30, 2003. TDS reported a loss of $3.5 million in 2003 for an impairment in the carrying value of a license in a non-operating market in Florida. TDS also reported an impairment loss of $5.0 million on a cellular market investment held by TDS Telecom in conjunction with its annual license cost and goodwill impairment testing.

8. Discontinued Operations

In the third quarter of 2004, TDS recorded a gain of $7.0 million ($4.4 million, net of income tax benefit of $2.6 million), or $0.08 per diluted share, for discontinued operations relating to a reduction in indemnity accrual requirements, primarily tax related, associated with the merger of Aerial Communications, Inc. (Aerial) with VoiceStream Wireless Corporation (VoiceStream) in 2000. The accrual was reduced in the third quarter of 2004 due to favorable outcomes of federal and state tax audits which reduced the potential indemnity obligation. See Indemnifications in Note 25 Commitments and Contingencies.

In the third quarter of 2003, TDS recorded a loss of $2.8 million ($1.6 million, net of income tax expense of $1.2 million), or $(0.03) per diluted share, for discontinued operations related to certain liabilities associated with the merger of Aerial and VoiceStream.

9. Cumulative Effect of Accounting Change

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

10. Earnings per Share

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

The amounts used in computing earnings per share from operations and the effect on income and the weighted average number of Common and Series A Common Shares of dilutive potential common stock are as follows.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003 As Restated	2004	2003 As Restated
	(Dollars and shares in thousands)			
Basic Earnings per Share:				
Income from Continuing Operations	$ 20,800	$ 43,416	$ 81,926	$ 34,216
Preferred Dividend requirement	51	104	152	312
Income from Continuing Operations Available to Common	20,749	43,312	81,774	33,904
Discontinued Operations	4,351	(1,609)	4,351	(1,609)
Cumulative Effect of Accounting Change				(11,789)
Net Income Available to Common used in Basic Earnings per Share	$ 25,100	$ 41,703	$ 86,125	$ 20,506
Diluted Earnings per Share:				
Income from Continuing Operations Available to Common used in Basic Earnings per Share	$ 20,749	$ 43,312	$ 81,774	$ 33,904
Reduction in Preferred Dividends if Preferred Shares Converted into Common Shares		100		
Minority Income Adjustment (1)	(104)	(210)	(324)	(219)
Income from Continuing Operations Available to Common	20,645	43,202	81,450	33,685
Discontinued Operations	4,351	(1,609)	4,351	(1,609)
Cumulative Effect of Accounting Change				(11,789)
Net Income Available to Common used in Diluted Earnings per Share	$ 24,996	$ 41,593	$ 85,801	$ 20,287
Weighted Average Number of Common Shares used in Basic Earnings per Share	57,321	57,420	57,253	57,829
Effects of Dilutive Securities:				
Stock Options (2)	294	228	267	95
Conversion of Preferred Shares (3)		218		
Weighted Average Number of Common Shares used in Diluted Earnings per Share	57,615	57,866	57,520	57,924

	Three Months Ended September 30,	Nine Months Ended September 30,

	2004	2003 As Restated	2004	2003 As Restated
Basic Earnings per Share:				
Income from Continuing Operations	$ 0.36	$ 0.76	$ 1.42	$ 0.58
Discontinued Operations	0.08	(0.03)	0.08	(0.03)
Cumulative Effect of Accounting Change				(0.20)
	$ 0.44	$ 0.73	$ 1.50	$ 0.35
Diluted Earnings per Share:				
Income from Continuing Operations	$ 0.35	$ 0.75	$ 1.41	$ 0.58
Discontinued Operations	0.08	(0.03)	0.08	(0.03)
Cumulative Effect of Accounting Change				(0.20)
	$ 0.43	$ 0.72	$ 1.49	$ 0.35

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

(2) Stock options convertible into 681,402 Common Shares were not included in computing Diluted Earnings per Share in the three and nine months ended September 30, 2004, respectively, because their effects were antidilutive. Stock options convertible into 1,292,021 and 1,446,525 Common Shares were not included in computing Diluted Earnings per Share in the three and nine months ended September 30, 2003, respectively, because their effects were antidilutive.

(3) Preferred shares convertible into 72,806 Common Shares were not included in computing Diluted Earnings per Share in the three and nine months ended September 30, 2004, respectively, because their effects were antidilutive. Preferred shares convertible into 225,519 Common Shares were not included in computing Diluted Earnings per Share in the nine months ended September 30, 2003 because their effects were antidilutive.

11. Marketable Equity Securities

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

The market values of the marketable equity securities may fall below the accounting cost basis of such securities. If TDS determines the decline in value of the marketable equity securities to be other than temporary, the unrealized loss included in Accumulated other comprehensive income is recognized and recorded as a loss in the Statement of Operations.

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

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

	September 30, 2004	December 31, 2003
	(Dollars in thousands)	
Marketable Equity Securities		
Deutsche Telekom AG - 131,461,861 Ordinary Shares	$ 2,435,988	$ 2,403,123
Vodafone Group Plc - 12,945,915 American Depositary Receipts	312,126	324,166
VeriSign, Inc. - 2,361,333 Common Shares	46,943	38,490
Rural Cellular Corporation - 719,396 equivalent Common Shares	4,957	5,719
Other	1	912
Aggregate fair value	2,800,015	2,772,410
Accounting cost basis	1,543,677	1,543,932
Gross unrealized holding gains	1,256,338	1,228,478
Deferred income tax (expense)	(490,517)	(479,683)
Unrealized holding gains, net of tax	765,821	748,795
Derivative instruments, net of tax	(418,927)	(447,319)
Equity method unrealized gains	261	126
Minority share of unrealized holding gains	(4,897)	(4,782)
Accumulated other comprehensive income	$ 342,258	$ 296,820

17

12. Goodwill

TDS has substantial amounts of goodwill as a result of the acquisition of wireless markets, and the acquisition of operating telephone companies. The changes in goodwill for the nine months ended September 30, 2004 and 2003, were as follows. TDS Telecom's incumbent local exchange carriers are designated as "ILEC" and its competitive local exchange carrier is designated as "CLEC" in the table.

(Dollars in thousands)	U.S. Cellular	TDS Telecom ILEC	TDS Telecom CLEC	Other(1)	Total
Beginning Balance December 31, 2003	$ 430,256	$ 397,341	$ 29,440	$ 30,900	$ 887,937
Acquisitions	3,649				3,649
Assets of operations held for sale (2)	(8,257)			(30,900)	(39,157)
Other Adjustments	(305)				(305)
Balance September 30, 2004	$ 425,343	$ 397,341	$ 29,440	$	$ 852,124
As Restated					
Balance December 31, 2002	$ 504,744	$ 397,482	$ 29,440	$ 35,900	$ 967,566
Divestiture	(69,961)				(69,961)
Impairment Loss				(5,000)	(5,000)
Other Adjustments	(190)	(141)			(331)
Balance September 30, 2003	$ 434,593	$ 397,341	$ 29,440	$ 30,900	$ 892,274

(1) Other consists of goodwill related to an investment in a cellular market owned by an ILEC subsidiary.
(2) As a result of the agreements with ALLTEL, as described more fully in Note 22 - Assets and Liabilities of Operations Held for Sale, $8.3 million of Goodwill recorded at U.S. Cellular and $30.9 million of Goodwill related to a wireless market owned by a TDS Telecom subsidiary were reclassified to Assets of operations held for sale as of September 30, 2004.

13. Unconsolidated Entities

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

Significant investments in TDS s unconsolidated entities include the following:

	September 30, 2004	September 30, 2003
Los Angeles SMSA Limited Partnership	5.5%	5.5%
Raleigh-Durham MSA Limited Partnership (1)	8.0%	8.0%
Midwest Wireless Communications, LLC	15.7%	15.7%
North Carolina RSA 1 Partnership	50.0%	50.0%
Oklahoma City SMSA Limited Partnership	14.6%	14.6%

(1) As a result of the agreement with ALLTEL, as described more fully in Note 22 - Assets and Liabilities of Operations Held for Sale, TDS's investment in this partnership was reclassified to Assets of operations held for sale as of September 30, 2004.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Dollars in thousands)			
Results of operations				
Revenues	$ 724,000	$ 694,000	$ 2,184,000	$ 1,859,000
Operating expenses	487,000	519,000	1,525,000	1,387,000
Operating income	237,000	175,000	659,000	472,000
Other income (expense), net	19,000	(1,000)	20,000	3,000
Net Income	$ 256,000	$ 174,000	$ 679,000	$ 475,000

18

14. Customer Lists

The customer lists, intangible assets from the acquisition of wireless properties, are being amortized based on average customer retention periods using the declining balance method. The acquisition of certain minority interests in the first quarter of 2004 added $12.9 million to the gross balance at September 30, 2004. Customer list amortization expense was $3.2 million and $9.9 million for the three and nine months ended September 30, 2004, respectively, and was $3.9 and $12.9 million for the three and nine months ended September 30, 2003, respectively. Amortization expense for the remainder of 2004 and for the years 2005-2008 is expected to be $2.5 million, $8.3 million, $5.4 million, $3.6 million and $2.4 million, respectively.

15. Property, Plant and Equipment

In the first quarter of 2004, U.S. Cellular adjusted the useful lives of Time Division Multiple Access (TDMA) radio equipment, switch software and antenna equipment. TDMA radio equipment lives were adjusted to be fully depreciated by the end of 2008, which is the latest date the wireless industry will be required by law to support analog service. U.S. Cellular currently uses TDMA radio equipment to support analog service, and expects to have its digital radio network fully migrated to Code Division Multiple Access (CDMA) 1XRTT or some future generation of CDMA technology by that time. The useful lives for certain switch software were reduced to one year from three years and antenna equipment lives were reduced from eight years to seven years in order to better align the useful lives with the actual length of time the assets are expected to be in use. These changes increased depreciation by $2.2 million and $12.1 million for the three and nine months ended September 30, 2004, respectively, and are estimated to increase depreciation by $14.9 million for the full year 2004. The changes in useful lives reduced net income by $1.1 million, or $0.02 per share for the three months ended September 30, 2004, and $6.0 million, or $0.10 per share for the nine months ended September 30, 2004.

In the nine months ended September 30, 2004, certain U.S. Cellular TDMA digital radio equipment consigned to a third party for sale was written down by $11.3 million in conjunction with the consignment and sale of such equipment, increasing depreciation expense by that amount. This writedown was necessary to reduce the book value of the assets sold or to be sold to the proceeds received or to be received from their disposition.

In preparation for the implementation of a fixed asset management and tracking software system, including a bar code asset identification system, U.S. Cellular is conducting a physical inventory review of its cell site fixed assets. U.S. Cellular expects to complete the review in the fourth quarter of 2004. U.S. Cellular charged $4.0 million to depreciation expense for the estimated write-off in the second quarter 2004. To the extent the final results differ from the $4.0 million already charged to expense, an adjustment would be required in the fourth quarter of 2004.

16. Revolving Credit Facilities and Forward Contracts

TDS has a $600 million revolving credit facility available for general corporate purposes. At September 30, 2004, this credit facility had $596.6 million available for use, net of $3.4 million of outstanding letters of credit. This credit facility expires in January 2007. Borrowings bear interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on TDS s credit rating. The contractual spread was 30 basis points as of September 30, 2004 (for a rate of 2.14% based on the one month LIBOR rate at September 30, 2004).

TDS also has $75 million of additional bank lines of credit for general corporate purposes, all of which was unused at September 30, 2004. These line of credit agreements expire in less than one year and provide for borrowings at negotiated rates up to the prime rate (4.75% at September 30, 2004).

U.S. Cellular has a $700 million revolving credit facility available for general corporate purposes. At September 30, 2004, this credit facility had $644.8 million available for use, net of borrowings of $55.0 million and outstanding letters of credit of $0.2 million. This credit facility expires in June 2007. Borrowings bear interest at the LIBOR rate plus a margin percentage based on U.S. Cellular s credit rating. The margin percentage was 55 basis points as of September 30, 2004 (for a rate of 2.39% based on the one month LIBOR rate at September 30, 2004).

Subsidiaries of TDS and U.S. Cellular have entered into a number of variable prepaid forward contracts (forward contracts) related to the marketable equity securities that they hold. The forward contracts mature from May 2007 to August 2008 and, at TDS s and U.S. Cellular s option, may be settled in shares of the respective security or cash.

On May 14, 2004, TDS filed a Form 10-K/A to restate its financial statements for the years ended December 31, 2003 and 2002 and for the interim periods for such years. The restatements resulted in defaults under the revolving credit agreements and certain of the forward contracts with one counterparty. TDS and U.S. Cellular did not fail to make any scheduled payments under such revolving credit agreements or forward contracts. TDS and U.S. Cellular received waivers from the lenders associated with the revolving credit agreements and from the counterparty to such forward contracts, under which the lenders and the counterparty agreed to waive any defaults that may have occurred as a result of the restatements.

As disclosed in Note 2, TDS has restated the Consolidated Financial Statements as of and for the nine months ended September 30, 2004. The restatement resulted in defaults under the revolving credit and line of credit agreements and certain of the forward contracts. TDS and U.S. Cellular were not in violation of any covenants that require TDS and U.S. Cellular to maintain certain financial ratios. TDS and U.S. Cellular did not fail to make any scheduled payments under such credit agreements or forward contracts. TDS and U.S. Cellular received waivers from the lenders associated with the credit agreements and from the counterparty to such forward contracts, under which the lenders and the counterparty agreed to waive any defaults that may have occurred as a result of the restatement.

17. Asset Retirement Obligation

U.S. Cellular is subject to asset retirement obligations associated primarily with its cell sites, retail sites and office locations. Legal obligations include obligations to remediate leased land on which U.S. Cellular s cell sites and switching offices are located. U.S. Cellular is also required to return leased retail store premises and office space to their pre-existing conditions. U.S. Cellular determined that it had an obligation to remove long-lived assets in its cell sites, retail sites and office locations as described by SFAS No. 143, Accounting for Asset Retirement Obligations, and has recorded a liability and related asset retirement obligation accretion expense. The asset retirement obligation calculated in accordance with the provisions of SFAS No. 143 at December 31, 2003 and at September 30, 2004 was $64.5 million and $69.2 million, respectively.

TDS Telecom s incumbent local exchange carriers have recorded an asset retirement obligation in accordance with the requirements of SFAS No. 143 and a regulatory liability for the costs of removal that state public utility commissions have required to be recorded for regulatory accounting purposes which are in excess of the amounts required to be recorded in accordance with SFAS No. 143. These amounts combined make up the asset retirement obligation amounts shown on the Balance Sheet. The asset retirement obligation calculated in accordance with the provisions of SFAS No. 143 at December 31, 2003 and at September 30, 2004 was $31.8 million and $33.1 million, respectively. The regulatory liability in excess of the amounts required to be recorded in accordance with SFAS No. 143 at December 31, 2003 and at September 30, 2004 was $28.2 million and $30.6 million, respectively.

TDS Telecom has determined that its competitive local exchange carrier does not have a material legal obligation to remove long-lived assets as described by SFAS No. 143.

The table below summarizes the changes in asset retirement obligations during the nine months ended September 30, 2004.

	U.S. Cellular	TDS Telecom	TDS Consolidated
	(Dollars in thousands)		
Beginning Balance - December 31, 2003	$ 64,501	$ 60,000	$ 124,501
Additional liabilities accrued	3,089	4,319	7,408
Accretion expense	3,713		3,713
Costs of removal incurred in 2004		(619)	(619)
Liabilities of operations held for sale (1)	(430)		(430)
Disposition of assets (2)	(1,635)		(1,635)
Ending Balance - September 30, 2004	$ 69,238	$ 63,700	$ 132,938

(1) As a result of the agreement with ALLTEL, as described more fully in Note 22 - Assets and Liabilities of Operations Held for Sale, $430,000 of Asset retirement obligations recorded at U.S. Cellular were reclassified to Liabilities of operations held for sale.
(2) As a result of the sale of wireless properties to AT&T Wireless in February 2004, Asset retirement obligations associated with these properties are no longer obligations of U.S. Cellular.

18. Long-Term Debt

On May 25, 2004, U.S. Cellular filed with the SEC a shelf registration statement on Form S-3 to register the issuance from time to time of up to $500 million of senior debt securities. This registration statement became effective on June 2, 2004.

As of June 17, 2004, U.S. Cellular issued $330 million in aggregate principal amount of unsecured 7.5% senior notes due June 15, 2034 under this registration statement. Interest on the notes is payable quarterly. U.S. Cellular may redeem the notes, in whole or in part, at any time on and after June 17, 2009, at redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. The net proceeds from this offering, after deducting underwriting discounts, were approximately $319.6 million.

Also, on June 28, 2004, U.S. Cellular issued $100 million in aggregate principal amount of unsecured 6.7% senior notes due December 15, 2033 priced to yield 7.21% to maturity under this registration statement. The net proceeds from this offering, after deducting underwriting discounts, were approximately $92.9 million. This was a further issuance of U.S. Cellular s 6.7% notes that were issued on December 8, 2003 in the aggregate principal amount of $444 million.

The total net proceeds from the 7.5% and 6.7% senior note offerings completed in June 2004, after deducting underwriting discounts, were approximately $412.5 million. Of this amount, $163.3 million was used to redeem U.S. Cellular s Liquid Yield Option Notes, on July 26, 2004, at accreted value. The balance of the net proceeds, together with borrowings under the revolving credit agreement, were used to redeem all $250 million of U.S. Cellular s 7.25% senior notes on August 16, 2004. No gain or loss was recognized as a result of such redemptions. However, U.S. Cellular wrote off $3.6 million of deferred debt expenses related to the redemption of long-term debt to Other income (expense), net in the Statement of Operations in the third quarter of 2004.

19. Minority Interest in Subsidiaries

Under SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, certain minority interests in consolidated entities with finite lives may meet the standard s definition of a mandatorily redeemable financial instrument and thus require reclassification as liabilities and remeasurement at the estimated amount of cash that would be due and payable to settle such minority interests under the applicable entity s organization agreement assuming an orderly liquidation of the finite-lived entity, net of estimated liquidation costs (the settlement value). TDS s consolidated financial statements include such minority interests that meet the standard s definition of mandatorily redeemable financial instruments. These mandatorily redeemable minority interests represent interests held by third parties in consolidated partnerships and limited liability companies (LLCs), where the terms of the underlying partnership or LLC agreement provide for a defined termination date at which time the assets of the subsidiary are to be sold, the liabilities are to be extinguished and the remaining net proceeds are to be distributed to the minority interest holders and TDS in accordance with the respective partnership and LLC agreements. The termination dates of TDS s mandatorily redeemable minority interests range from 2042 to 2100.

On November 7, 2003, the FASB issued FASB Staff Position (FSP) No. FAS 150-3, Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150. The FSP indefinitely deferred the classification and measurement provisions of SFAS No. 150 related to the mandatorily redeemable minority interests associated with finite-lived subsidiaries, but retained the related disclosure provisions. The settlement value of TDS s mandatorily redeemable minority interests is estimated to be $102.7 million at September 30, 2004. This represents the estimated amount of cash that would be due and payable to settle minority interests assuming an orderly liquidation of the finite-lived consolidated partnerships and LLCs on September 30, 2004, net of estimated liquidation costs. This amount is being disclosed pursuant to the requirements of FSP No. FAS 150-3; TDS has no current plans or intentions to liquidate any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the minority interests in finite-lived consolidated partnerships and LLCs at September 30, 2004 is $28.2 million, and is included in the Balance Sheet caption Minority interest in subsidiaries. The excess of the aggregate settlement value over the aggregate carrying value of the mandatorily redeemable minority interests of $74.5 million is primarily due to the unrecognized appreciation of the minority interest holders share of the underlying net assets in the consolidated partnerships and LLCs. Neither the minority interest holders share, nor TDS s share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements. The estimate of settlement value

was based on certain factors and assumptions. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount.

The FASB plans to reconsider certain implementation issues and perhaps the classification or measurement guidance for mandatorily redeemable minority interests during the deferral period. The outcome of their deliberations cannot be determined at this point. Accordingly, it is possible that the FASB could require the recognition and measurement of mandatorily redeemable minority interests at their settlement value at a later date.

20. Common Share Repurchase Program

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

In the nine months ended September 30, 2004, TDS repurchased 214,800 Common Shares under this authorization for an aggregate purchase price of $14.9 million, representing an average per share price of $69.15 including commissions. As of September 30, 2004, shares remaining available for repurchase under this authorization totaled 824,300. In the nine months ended September 30, 2003, TDS repurchased 1.4 million Common Shares under this authorization for an aggregate purchase price of $56.5 million, representing an average per share price of $40.99, including commissions.

U.S. Cellular s primary repurchase program expired in December 2003. However, U.S. Cellular has an ongoing authorization to repurchase a limited amount of U.S. Cellular Common Shares on a quarterly basis, primarily for use in employee benefit plans. In the nine months ended September 30, 2004, U.S. Cellular repurchased 5,100 U.S. Cellular Common Shares under this authorization for an aggregate purchase price of $204,000, representing an average per share price of $40.04 including commissions. No U.S. Cellular Common Shares were repurchased in the nine months ended September 30, 2003.

21. Acquisitions, Divestitures and Exchanges

2004 Activity

On September 23, 2004, U.S. Cellular announced that it had entered into a definitive agreement to sell its Daytona Beach Florida 20 MHz C block personal communications service license to MetroPCS for approximately $8.5 million. The transaction is expected to close in the fourth quarter of 2004. U.S. Cellular does not expect to record a gain or loss on this transaction. The Daytona license has been reclassified to Assets of operations held for sale on the Balance Sheet as of September 30, 2004.

On August 4, 2004, TDS and U.S. Cellular announced that they had entered into definitive agreements with ALLTEL to sell certain wireless properties. TDS and U.S. Cellular subsidiaries will sell three consolidated properties and six minority interests to ALLTEL for approximately $143 million in cash, including repayment of debt and working capital that is subject to adjustment at closing. The closing of the transaction is expected to occur in the fourth quarter of 2004.

TDS expects to record a pre-tax gain of approximately $50 million related to the ALLTEL transaction at the time of closings representing the excess of the cash received over the net book value of the assets and liabilities sold, subject to a working capital adjustment. As a result of signing the definitive agreements for this transaction, TDS reclassified the assets and liabilities of the properties to be transferred as Assets and Liabilities of operations held for sale on the Balance Sheet as of September 30, 2004. See Note 22 Assets and Liabilities of Operations Held for Sale.

On February 18, 2004, U.S. Cellular completed the sale of certain of its wireless properties in southern Texas to AT&T Wireless for $96.9 million in cash, including a working capital adjustment. The U.S. Cellular markets sold to AT&T Wireless included wireless assets and customers in six cellular markets. An aggregate loss of $21.3 million (including a $22.0 million estimate of the Loss on assets operations held for sale in the fourth quarter of 2003 and a $0.7 million reduction of the loss in the nine months ended September 30, 2004) was recorded as a Loss on assets of operations held for sale (included in operating expenses), representing the difference between the carrying value of the markets sold to AT&T Wireless and the cash received in the transaction.

Prior to the close of the AT&T Wireless sale, TDS reflected the assets and liabilities to be transferred to AT&T Wireless as Assets and Liabilities of operations held for sale in accordance with SFAS No. 144. The results of operations of the markets sold to AT&T Wireless were included in results of operations through February 17, 2004.

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

2003 Activity

On August 1, 2003, U.S. Cellular completed the transfer of wireless assets and customers in ten markets in Florida and Georgia to AT&T Wireless pursuant to an agreement entered into in March 2003. In return, U.S. Cellular received the following a) rights to acquire controlling interests in 36 personal communication service licenses contiguous to and that overlap existing U.S. Cellular properties in 13 states in the Midwest and the Northeast; b) approximately $34 million in cash; and c) minority interests in six markets in which it previously owned a controlling interest. In accordance with the agreement, U.S. Cellular has deferred the assignment and development of 21 licenses for a period of up to five years from the closing date. U.S. Cellular will take possession of the licenses in staggered closings over that five-year period to comply with service requirements of the Federal Communications Commission (FCC). The value of these licenses is recorded as Wireless license rights on the Balance Sheet.

The acquisition of the licenses in the exchange was accounted for as a purchase by U.S. Cellular and the transfer of the properties by U.S. Cellular to AT&T Wireless was accounted for as a sale. A $23.6 million Loss on assets of operations held for sale (included in operating expenses) was recorded in the nine months ended September 30, 2003 representing the difference between the carrying value of the markets transferred to AT&T Wireless and the fair value of the consideration received or to be received in the transaction.

22. Assets and Liabilities of Operations Held for Sale

In connection with the definitive agreements with ALLTEL and MetroPCS described in Note 21, the consolidated Balance Sheet and supplemental data of TDS as of September 30, 2004 reflect the assets and liabilities to be transferred as Assets and Liabilities of operations held for sale in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The results of operations of the markets to be transferred are included in results of continuing operations through September 30, 2004 and will continue to be included in results of operations through the closings of the transactions.

Summarized assets and liabilities relating to operations held for sale are as follows:

(Dollars in thousands)	September 30, 2004
Current assets	$ 12,820
Wireless license costs	8,758
Goodwill	39,157
Property, plant and equipment, net	32,226
Investment in unconsolidated entities	21,844
Other assets	1,165
Assets of operations held for sale	$ 115,970
Current liabilities	$ 3,729
Deferred credits	487
Liabilities of operations held for sale	$ 4,216

23

23. Accumulated Other Comprehensive Income

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

	Nine Months Ended September 30,	
	2004	2003
	(Dollars in thousands)	
Balance, beginning of period	$ 296,820	$ 191,704
Marketable Equity Securities		
Add (Deduct):		

Unrealized gains on marketable equity securities	27,860	264,215
Income tax expense	(10,834)	(103,285)
	17,026	160,930
Unrealized gains (losses) of equity method companies	135	(489)
Minority share of unrealized (gains) losses	1,037	(2,724)
Net unrealized gains	18,198	157,717
Deduct (Add):		
Recognized losses on marketable equity securities		(168)
Income tax benefit		62
		(106)
Minority share of recognized losses		21
Net recognized losses from marketable equity securities included in net income		(85)
	18,198	157,802
Derivative Instruments		
Unrealized gains (losses) on derivative instruments	46,315	(160,639)
Income tax (expense) benefit	(17,923)	62,433
	28,392	(98,206)
Minority share of unrealized (gains) losses on derivative instruments	(1,152)	990
	27,240	(97,216)
Net change in unrealized gains included in comprehensive income	45,438	60,586
Balance, end of period	$ 342,258	$ 252,290

	Nine Months Ended September 30,	
	2004	2003
	(Dollars in thousands)	
Accumulated Unrealized Gains (Losses) on Derivative Instruments		
Balance, beginning of period	$ (441,300)	$ (49,584)
Add (Deduct):		
Unrealized gains (losses) on derivative instruments	46,315	(160,639)
Income tax (expense) benefit	(17,923)	62,433
Minority share of unrealized (gains) losses on derivative instruments	(1,152)	990
Balance, end of period	$ (414,060)	$ (146,800)

	Three Months Ended September 30,	Nine Months Ended September 30,

	2004	2003 As Restated	2004	2003 As Restated
	(Dollars in thousands)			
Comprehensive Income				
Net Income	$ 25,151	$ 41,807	$ 86,277	$ 20,818
Net change in unrealized gains (losses) on marketable equity securities and derivative instruments	42,178	(8,616)	45,438	60,586
	$ 67,329	$ 33,191	$ 131,715	$ 81,404

24

24. Business Segment Information

Financial data for TDS s business segments for each of the three and nine month periods ended or at September 30, 2004 and 2003 are as follows. TDS Telecom s incumbent local exchange carriers are designated as ILEC in the table and its competitive local exchange carrier is designated as CLEC .

Three Months Ended or at September 30, 2004		TDS Telecom			
(Dollars in thousands)	U.S. Cellular	ILEC	CLEC	All Other(1)	Total
Operating revenues	$ 748,213	$ 165,275	$ 56,522	$ (1,230)	$ 968,780
Cost of services and products	280,785	45,205	23,769	(735)	349,024
Selling, general and administrative expense	298,011	43,902	33,896	(495)	375,314
Operating income before depreciation, amortization and accretion (2)	169,417	76,168	(1,143)		244,442
Depreciation, amortization and accretion expense	127,408	32,667	9,387		169,462
Operating income (loss)	42,009	43,501	(10,530)		74,980
Significant noncash items:					
Investment income	19,265	175		139	19,579
Loss on investments				(491)	(491)
Marketable equity securities	249,571			2,550,444	2,800,015
Investment in unconsolidated entities	171,727	19,630		24,272	215,629
Total assets	4,979,117	1,836,279	235,288	3,329,598	10,380,282
Capital expenditures	$ 131,648	$ 31,571	$ 7,198	$ 1,142	$ 171,559

Three Months Ended or at September 30, 2003 As Restated		TDS Telecom			
(Dollars in thousands)	U.S. Cellular	ILEC	CLEC	All Other(1)	Total
Operating revenues	$ 664,976	$ 164,650	$ 53,468	$ (707)	$ 882,387
Cost of services and products	230,650	41,240	22,734	(252)	294,372
Selling, general and administrative expense	236,573	44,571	30,481	(455)	311,170
Operating income before depreciation, amortization and accretion, loss on					

	U.S. Cellular	ILEC	CLEC	All Other(1)	Total
impairment of intangible assets and loss on assets of operations held for sale (2)	197,753	78,839	253		276,845
Depreciation, amortization and accretion expense	103,634	32,059	8,545		144,238
(Gain) loss on assets of operations held for sale	(1,442)				(1,442)
Operating income (loss)	95,561	46,780	(8,292)		134,049
Significant noncash items:					
Investment income	11,301	149		194	11,644
Marketable equity securities	211,178			1,996,366	2,207,544
Investment in unconsolidated entities	178,417	19,218		24,894	222,529
Total assets	4,794,171	1,786,873	233,751	2,710,235	9,525,030
Capital expenditures	$ 135,111	$ 32,007	$ 7,999	$ 1,485	$ 176,602

Nine Months Ended or at September 30, 2004		TDS Telecom			
(Dollars in thousands)	U.S. Cellular	ILEC	CLEC	All Other(1)	Total
Operating revenues	$ 2,118,088	$ 487,911	$ 171,039	$ (3,158)	$ 2,773,880
Cost of services and products	793,265	118,906	67,330	(1,854)	977,647
Selling, general and administrative expense	825,836	130,350	94,133	(1,304)	1,049,015
Operating income before depreciation, amortization and accretion (2)	498,987	238,655	9,576		747,218
Depreciation, amortization and accretion expense	363,551	97,639	28,135		489,325
(Gain) loss on assets of operations held for sale	(725)				(725)
Operating income (loss)	136,161	141,016	(18,559)		258,618
Significant noncash items:					
Investment income	51,913	525		303	52,741
Loss on investments	(1,830)			(491)	(2,321)
Marketable equity securities	249,571			2,550,444	2,800,015
Investment in unconsolidated entities	171,727	19,630		24,272	215,629
Total assets	4,979,117	1,836,279	235,288	3,329,598	10,380,282
Capital expenditures	$ 394,762	$ 76,148	$ 22,250	$ 3,514	$ 496,674

Nine Months Ended or at September 30, 2003 As Restated		TDS Telecom			
(Dollars in thousands)	U.S. Cellular	ILEC	CLEC	All Other(1)	Total
Operating revenues	$ 1,914,687	$ 484,052	$ 158,386	$ (2,046)	$ 2,555,079
Cost of services and products	683,870	119,219	63,737	(772)	866,054
Selling, general and administrative expense	745,020	131,604	87,787	(1,274)	963,137
Operating income before depreciation, amortization and accretion, loss on impairment of intangible assets and loss on assets of operations held for					

sale (2)	485,797	233,229	6,862		725,888
Depreciation, amortization and accretion expense	317,905	97,799	24,663		440,367
Loss on impairment of intangible assets	49,595				49,595
Loss on assets of operations held for sale	23,619				23,619
Operating income (loss)	94,678	135,430	(17,801)		212,307
Cumulative effect of accounting change, net of tax and minority interest	(14,346)			2,557	(11,789)
Significant noncash items:					
Investment income	37,163	488		260	37,911
Loss on investments	(3,500)			(5,000)	(8,500)
Marketable equity securities	211,178			1,996,366	2,207,544
Investment in unconsolidated entities	178,417	19,218		24,894	222,529
Total assets	4,794,171	1,786,873	233,751	2,710,235	9,525,030
Capital expenditures	$ 439,113	$ 76,707	$ 17,208	$ 4,497	$ 537,525

(1) Consists of the TDS Corporate operations, TDS Telecom intercompany revenue and expense eliminations, TDS Corporate and TDS Telecom marketable equity securities and all other businesses not included in the U.S. Cellular or TDS Telecom segments.
(2) Operating income before depreciation, amortization and accretion and Operating income before depreciation, amortization and accretion, Loss on impairment of intangible assets and Loss on assets of operations held for sale are measures of profit and loss used by the chief operating decision maker to review the operating performance of each reportable business segment and is reported above in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information."

26

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003 As Restated	2004	2003 As Restated
	(Dollars in thousands)			
Total operating income from reportable segments	$ 74,980	$ 134,049	$ 258,618	$ 212,307
Investment and other income (expense)	(30,795)	(38,357)	(89,238)	(115,889)
Income before income taxes and minority interest	$ 44,185	$ 95,692	$ 169,380	$ 96,418

25. Commitments and Contingencies

Indemnifications

TDS enters into agreements in the normal course of business that provide for indemnification of counterparties. These include certain asset sales and financings with other parties. The terms of the indemnifications vary by agreement. The events or circumstances that would require TDS to perform under these indemnities are transaction specific; however, these agreements may require TDS to indemnify the counterparty for costs and losses incurred from litigation or claims arising from the underlying transaction. TDS is unable to estimate the maximum potential liability for these types of indemnifications as the amounts are dependent on the outcome of future events, the nature and likelihood of which cannot be determined at this time. Historically, TDS has not made any significant indemnification payments under such agreements. TDS is party to an indemnity agreement with T-Mobile regarding certain contingent liabilities at Aerial Communications for the period prior to Aerial s merger into VoiceStream Wireless. As of September 30, 2004, TDS has recorded liabilities of $12.5 million relating to this indemnity.

Legal Proceedings

TDS is involved in legal proceedings before the FCC and various state and federal courts from time to time. TDS does not believe that any of such proceedings will have a materially adverse impact on the financial position, results of operations or cash flows of TDS.

Regulatory Environment

In response to petitions filed by the regional Bell operating company for increases in rates for certain wholesale services that it provides to TDS Telecom's competitive local exchange carrier ("CLEC") operation, the state public service commissions of Illinois, Wisconsin and Michigan have issued orders that will adversely affect the cost of providing some services for TDS Telecom's CLEC operation in those states, primarily services to residential customers and certain small business customers. The pricing data for the principal markets of the CLEC became available in the fourth quarter and are subject to interpretation. The full impact of these orders is still being analyzed by management and management will continue with the analysis in the fourth quarter. TDS Telecom will review its business strategy and may make certain strategic and tactical business decisions to address the impact of the new pricing. When the analysis is complete it is possible that there will be an impairment of the CLEC. An impairment loss, if any, would require TDS to reduce the value of its CLEC assets and record a loss in its statement of operations.

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

27

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

Telephone and Data Systems, Inc. (TDS - AMEX symbol: TDS) is a diversified telecommunications company providing high-quality telecommunications services to approximately 6.0 million wireless telephone customers and wireline telephone equivalent access lines. TDS conducts substantially all of its wireless telephone operations through its 82.0%-owned subsidiary, United States Cellular Corporation (U.S. Cellular) and its incumbent local exchange carrier and competitive local exchange carrier wireline telephone operations through its wholly owned subsidiary, TDS Telecommunications Corporation (TDS Telecom).

The following discussion and analysis should be read in conjunction with TDS s interim consolidated financial statements and footnotes included herein, and with TDS s audited consolidated financial statements and footnotes and Management s Discussion and Analysis of Results of Operations and Financial Condition included in TDS s Annual Report on Form 10-K for the year ended December 31, 2003, as amended.

RESTATEMENTS AND RECLASSIFICATIONS

Restatement of September 30, 2004 Consolidated Statements of Cash Flows

As disclosed in Note 2, TDS has restated the Consolidated Financial Statements as of and for the nine months ended September 30, 2004 for the presentation of accreted interest paid on the redemption of U.S. Cellular's Liquid Yield Option Notes ("LYONs"). The restatement reclassifies the $68.1 million accreted interest portion of the LYONs that were redeemed in July 2004 from a reduction in "cash flows from financing activities" to a reduction in "cash flows from operating activities" on the Consolidated Statements of Cash Flows. Certain discussions in MD&A related to cash flows from operating and financing activities have been revised to reflect the change in classification of the LYONs' accreted interest. This restatement had no effect on TDS's "Net increase (decrease) in cash and cash equivalents" for the nine months ended September 30, 2004, and only changed the classification of certain cash flow items. The restatement of the Consolidated Statements of Cash Flows had no impact on revenues, expenses, net income, earnings per share, or any Balance Sheet items.

Wireless License Costs and Goodwill Restatements

On May 14, 2004 TDS restated its 2003 and 2002 financial statements relating to the implementation of Statement of Financial Accounting Standards (SFAS) No. 142 Goodwill and Other Intangible Assets, which was adopted on January 1, 2002. Prior to January 1, 2002, TDS allocated the excess of purchase price of wireless properties over tangible assets and liabilities acquired to wireless license costs and goodwill. At that time, the accounting treatment for TDS s wireless license costs and goodwill was the same for book purposes, with both asset classes amortized over an expected life of 40 years. However, no deferred taxes were provided on the amounts allocated to goodwill.

Based upon a subsequent review of goodwill, TDS restated the allocation of $138.9 million of purchase price recorded as goodwill to wireless license costs as of January 1, 2002, the date of the adoption of SFAS No. 142. In connection with this restatement, an additional deferred tax liability of $90.7 million was recorded as of January 1, 2002. The additional deferred tax liability recorded in conjunction with this restatement increased the carrying value of wireless license costs by a corresponding $90.7 million. Following these adjustments, TDS reperformed the impairment tests for its wireless license costs as of January 1, 2002, and recorded an impairment loss of $20.9 million, before an income tax benefit of $8.2 million and minority interest of $2.3 million. This impairment was recorded as a cumulative effect of an accounting change at January 1, 2002, the date of the adoption of SFAS No. 142.

In the first quarter of 2003, TDS had recorded a Loss on assets of operations held for sale related to the pending disposition of certain wireless properties. The wireless license costs upon which the impairment was recorded in the first quarter of 2002 included the wireless license costs of these properties. As a result, a portion of the originally recognized Loss on assets of operations held for sale in the first quarter of 2003 was recognized in the first quarter of 2002. Consequently, Loss on assets of operations held for sale in the first quarter of 2003 was reduced by $1.9 million, before an income tax benefit of $0.8 million and minority interest of $0.2 million. In the third quarter of 2003, TDS had originally recorded an income tax expense upon the closing of the disposition of such wireless properties. This tax expense was reduced due to the reversal of additional deferred tax liabilities that were recorded with respect to the wireless properties exchanged in conjunction with the restatement from goodwill to wireless license costs. Consequently, income tax expense in 2003 was reduced by $10.7 million and minority interest by $1.9 million.

In addition, as a result of the restatement discussed above, TDS also reperformed the annual impairment test for its wireless license costs for 2003, which was originally performed during the second quarter of 2003. This resulted in the recognition of an additional impairment loss of $49.6 million, before an income tax benefit of $19.6 million and minority interest of $5.4 million in the second quarter of 2003.

Retention Reclassifications

Certain amounts reported in prior years have been reclassified to conform to the current period presentation. Prior to the fourth quarter of 2003, costs for equipment sold by U.S. Cellular to retain current customers were included in selling, general and administrative expense. These costs were partially offset by equipment sales revenues received from these customers. In the fourth quarter of 2003, TDS changed its policy for classifying retention costs and reclassified U.S. Cellular equipment sales revenue and cost of equipment sold related to the retention of current customers out of selling, general and administrative expense and into operating revenues and cost of services and products, respectively, for each period presented. These reclassifications have been reflected in the three and nine months ended September 30, 2003. These reclassifications increased operating revenues for the three and nine months ended September 30, 2003 by $7.6 million and $21.6 million, respectively, and increased cost of services and products by $23.5 million and $69.6 million, respectively, from the amounts originally reported. Selling, general and administrative expense was reduced by $15.9 million and $48.0 million, respectively, from the amounts originally reported in the results for the three and nine months ended September 30, 2003 to reflect the amounts reclassified to operating revenues and cost of services and products. These reclassifications did not have any impact on income from operations, net income, earnings per share, financial position or cash flows of TDS for the three and nine months ended September 30, 2003.

OVERVIEW

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

Results of Operations

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

U.S. Cellular s business development strategy is to operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular s operating strategy is to strengthen the geographic areas where it can continue to build long-term operating synergies and to exit those areas where it does not have opportunities to build such synergies. In addition to the recent transactions disclosed in TDS s Annual Report on Form 10-K for the year ended December 31, 2003, as amended, on February 18, 2004, U.S. Cellular completed the sale of certain of its wireless properties in southern Texas to AT&T Wireless Services, Inc. (AT&T Wireless) for $96.9 million in cash, including a working capital adjustment. On August 4, 2004, TDS and U.S. Cellular announced that they had entered into a definitive agreement with ALLTEL Communications Inc. (ALLTEL) to sell certain wireless properties. U.S. Cellular will sell two consolidated properties and five minority interests to ALLTEL for approximately $80 million in cash, including repayment of debt and working capital that is subject to adjustment at closing. The transaction is expected to close in the fourth quarter of 2004. On September 23, 2004, U.S. Cellular announced that it had entered into a definitive agreement to sell its Daytona Beach, Florida 20 MHz C block personal communications service license to MetroPCS California/Florida, Inc. (MetroPCS) for approximately $8.5 million. The transaction is expected to close in the fourth quarter of 2004.

U.S. Cellular s operating income in the nine months ended September 30, 2004 increased $41.5 million, or 44%, to $136.2 million from $94.7 million in 2003. The operating income margins (as a percent of service revenues) were 6.9% in 2004 and 5.3% in 2003. U.S. Cellular s 2003 operating income and margin were significantly affected by the Loss on assets of operations held for sale and Loss on impairment of intangible assets. Although operating income and margins improved in 2004, TDS expects that there will be pressure on U.S. Cellular operating income and margins in the next few years related to the following factors:

- costs of customer acquisition and retention;
- competition;
- increased customer use of its services;

29

- launching service in new areas;
- reduced inbound roaming revenues; and
- continued enhancements to its wireless networks.

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

- reduced outbound roaming costs per minute; and
- expansion of revenues from data-related services and newly launched markets.

See U.S. Cellular Operations.

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

Both incumbent local exchange carriers and competitive local exchange carriers are faced with significant challenges, including the industry declines in long distance minutes of use and use of second lines by customers, growing competition from wireless and other communications providers, lack of access to and potentially uneconomic pricing of unbundled network elements, changes in regulation and new technologies such as Voice Over Internet Protocol. These challenges could have a material adverse effect on the financial condition, results of operations and cash flows of TDS Telecom.

On August 4, 2004, TDS announced that it had entered into definitive agreements with ALLTEL to sell certain wireless properties. TDS Telecom will sell a majority interest in one RSA market which has been operated by ALLTEL and an investment interest in one RSA market for approximately $63 million in cash, including repayment of debt and working capital that is subject to adjustment at closing. The transaction is expected to close in the fourth quarter of 2004.

TDS Telecom s operating income in the nine months ended September 30, 2004 increased $4.9 million, or 4% to $122.5 million from $117.6 million in 2003. The operating income margins were 18.7% in 2004 and 18.4% in 2003. Despite the challenges faced in the industry, TDS Telecom was able to increase equivalent access lines in 2004 primarily through the increase in penetration of existing markets by its competitive local exchange operations. The incumbent local exchange carrier operations increased revenues $3.8 million or 1% in 2004 and the competitive local exchange carrier operations increased revenues by $12.6 million, or 8%. TDS Telecom continues to look for ways to control costs while increasing the penetration of its competitive local exchange carrier markets.

See TDS Telecom Operations.

Financing Initiatives

TDS and its subsidiaries had Cash and cash equivalents totaling $1,081.2 million, $1,241.3 million of revolving credit facilities available for use and an additional $75 million of bank lines of credit as of September 30, 2004. TDS and its subsidiaries are also generating substantial internal funds from operations. Cash flows from operating activities totaled $475.6 million in the nine months ended September 30, 2004. In addition, TDS and its subsidiaries may have access to public and private capital markets to help meet their long-term financing needs. TDS anticipates that it may require funding over the next few years for capital expenditures, for the development of new wireless markets at U.S. Cellular and to further its growth in all markets. Management believes that cash on hand, expected future cash flows from operations and existing sources of external financing provide substantial financial flexibility and are sufficient to permit TDS and its subsidiaries to finance their contractual obligations and anticipated capital expenditures. TDS continues to seek to maintain a strong Balance Sheet and an investment grade rating.

As of June 17, 2004, U.S. Cellular issued $330 million in aggregate principal amount of unsecured 7.5% senior notes due 2034. The net proceeds from this offering, after deducting underwriting discounts, were approximately $319.6 million.

On June 28, 2004, U.S. Cellular issued $100 million in aggregate principal amount of unsecured 6.7% senior notes due 2033 priced to yield 7.21% to maturity. The net proceeds from this offering, after deducting underwriting discounts, were approximately $92.9 million. This was a further issuance of U.S. Cellular s 6.7% notes that were issued on December 8, 2003 in the aggregate principal amount of $444 million.

The total net proceeds from the 7.5% and 6.7% senior note offerings completed in June 2004, after deducting underwriting discounts, were approximately $412.5 million. Of this amount, $163.3 million was used to redeem U.S. Cellular s Liquid Yield Option Notes, on July 26, 2004, at accreted value. The balance of the net proceeds, together with borrowings under the revolving credit agreement, was used to redeem all $250 million of U.S. Cellular s 7.25% senior notes on August 16, 2004. As a result of these transactions, the average maturity date of U.S. Cellular s long-term debt has been significantly extended into the future. See Financial Resources and Liquidity and Capital Resources.

RESULTS OF OPERATIONS

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

During the third quarter of 2004, TDS revised its accounting for certain operating leases that contain fixed rental increases to recognize lease revenue and expense on a straight-line basis over the lease term in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases, as amended, and related pronouncements. Pursuant to its revised accounting for such leases, TDS recorded out-of-period adjustments to operating revenues and operating expenses during the third quarter of 2004. The adjustments were not considered material to the current years or any prior years earnings, earnings trends or individual financial statement line items. The adjustments were recorded in the current quarter ended September 30, 2004, and no prior periods were adjusted. The impact of the out-of-period adjustments on the affected line items in TDS s consolidated Statement of Operations for the nine months ended September 30, 2004 is as follows:

Nine months ended September 30, 2004 *(Dollars in thousands, except earnings per share)*		TDS Telecom			
Increase (decrease)	U.S. Cellular	ILEC	CLEC	All Other	Total
Operating revenues	$ 821	$ 69	$	$	$ 890
Cost of services and products	2,334	50			