TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-Q/A
March 10, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 2)

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

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

For the quarterly period ended September 30, 2003

OR

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

For the transition period from to

Commission File Number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Not Applicable
(Former address of principal executive offices) (Zip Code)

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 o

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, 2003
Common Shares, $.01 par value	51,002,334 Shares
Series A Common Shares, $.01 par value	6,438,113 Shares

EXPLANATORY NOTE

Telephone and Data Systems, Inc. ("TDS") is filing this Amendment No. 2 to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, which was originally filed with the Securities and Exchange Commission (the "SEC") on November 12, 2003, and which was amended by Amendment No. 1 on February 17, 2004 (the "Quarterly Report"), to amend Part I, Item 1 "Financial Statements" and Item 2 "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Part II, Item 6 "Exhibits and Reports on Form 8-K" of the Quarterly Report. In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, updated certifications by the TDS principal executive officer and principal financial officer are being filed as exhibits to this Form 10-Q/A.

This amendment does not amend any other Items except those indicated above and does not update any of the disclosures contained in the Quarterly Report as previously amended except as expressly provided herein. The filing of this Form 10-Q/A shall not be deemed an admission that the original or amended filings, when made, include 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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
	(As Restated)	**(As Restated)**	**(As Restated)**	**(As Restated)**
	(Dollars in thousands, except per share amounts)			
OPERATING REVENUES	$ 874,754	$ 784,102	$ 2,533,459	$ 2,169,742
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation, amortization and accretion expense shown below)	270,829	245,504	796,415	644,934
Selling, general and administrative expense	327,080	301,179	1,011,156	831,195
Depreciation, amortization and accretion expense	144,238	143,209	440,367	370,744
(Gain) Loss on assets held for sale	(1,442)		25,558	
	740,705	689,892	2,273,496	1,846,873
OPERATING INCOME	134,049	94,210	259,963	322,869
INVESTMENT AND OTHER INCOME (EXPENSE)				
Interest and dividend income	4,426	2,213	14,823	52,447
Investment income	11,644	13,335	37,911	32,124
(Loss) on marketable securities and other investments		(90,071)	(8,500)	(1,846,597)
Interest expense	(41,604)	(33,451)	(128,957)	(92,170)
Minority interest in income of subsidiary trust	(4,273)	(6,202)	(16,678)	(18,607)
Other (expense), net	(8,550)	2,511	(14,488)	2,494
	(38,357)	(111,665)	(115,889)	(1,870,309)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	95,692	(17,455)	144,074	(1,547,440)
Income tax expense (benefit)	49,541	(1,205)	76,988	(588,323)
INCOME (LOSS) BEFORE MINORITY INTEREST	46,151	(16,250)	67,086	(959,117)
Minority Share of (Income) Loss	(11,537)	(4,238)	(17,988)	849
	34,614	(20,488)	49,098	(958,268)

INCOME (LOSS) FROM CONTINUING OPERATIONS								
Discontinued Operations, net of tax		(1,609)				(1,609)		
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES		33,005		(20,488)		47,489		(958,268)
Cumulative effect of accounting changes, net of tax and minority interest						(11,789)		3,366
NET INCOME (LOSS)		33,005		(20,488)		35,700		(954,902)
Preferred Dividend Requirement		104		105		312		323
NET INCOME (LOSS) AVAILABLE TO COMMON	$	32,901	$	(20,593)	$	35,388	$	(955,225)
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (000s)		57,420		58,660		57,829		58,633
BASIC EARNINGS PER SHARE (Note 8)								
Income (Loss) from Continuing Operations	$	0.60	$	(0.35)	$	0.84	$	(16.35)
Discontinued Operations		(0.03)				(0.03)		
Cumulative Effect of Accounting Changes						(0.20)		0.06
Net income (loss) available to common	$	0.57	$	(0.35)	$	0.61	$	(16.29)
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING (000s)		57,793		58,660		57,924		58,633
DILUTED EARNINGS PER SHARE (Note 8)								
Income (Loss) from Continuing Operations	$	0.60	$	(0.35)	$	0.84	$	(16.35)
Discontinued Operations		(0.03)				(0.03)		
Cumulative Effect of Accounting Changes						(0.20)		0.06
Net income (loss) available to common	$	0.57	$	(0.35)	$	0.61	$	(16.29)
DIVIDENDS PER SHARE	$	0.155	$	0.145	$	0.465	$	0.435

The accompanying notes to 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,	
	2003 (As Restated)	2002 (As Restated)
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) from continuing operations	$ 49,098	$ (958,268)
Add (Deduct) adjustments to reconcile income (loss) to net cash provided by operating activities		
Depreciation, amortization and accretion	440,367	370,744
Deferred taxes	58,460	(660,318)
Investment income	(37,911)	(32,124)
Minority share of income (loss)	17,988	(849)
Loss on assets of operations held for sale	25,558	
(Gain) loss on marketable securities and other investments	8,500	1,846,597
Noncash interest expense	19,868	7,326
Other noncash expense	27,236	12,557
Changes in assets and liabilities		
Change in accounts receivable	76,360	(23,840)
Change in materials and supplies	15,373	16,609
Change in accounts payable	(105,287)	(1,035)
Change in advanced billings and customer deposits	15,212	15,726
Change in accrued taxes	31,119	57,626
Change in other assets and liabilities	(27,000)	(26,233)
	614,941	624,518
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(537,525)	(565,679)
Acquisitions, net of cash acquired	(1,251)	(528,638)
Proceeds from exchange transaction	33,958	
Increase in notes receivable	(7)	(2,581)
Refund of FCC deposit		47,566
Distributions from unconsolidated entities	21,685	25,519
Investments in and advances to unconsolidated entities	(1,031)	829
Other investing activities	(1,977)	(10,229)
	(486,148)	(1,033,213)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in notes payable	9,576	116,142
Issuance of long-term debt	900	2,395
Proceeds from forward contracts		680,360

Repayment of Trust Originated Preferred Securities		(300,000)		
Prepayment of long-term notes		(70,500)		(51,000)
Repayments of long-term debt		(55,250)		(13,946)
Repurchase of TDS Common Shares		(56,522)		
Dividends paid		(27,186)		(25,837)
Other financing activities		5,392		(3,406)
		(493,590)		704,708
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(364,797)		296,013
CASH AND CASH EQUIVALENTS -				
Beginning of period		1,298,936		140,744
End of period	$	934,139	$	436,757

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

Unaudited

	September 30, 2003 (As Restated)	December 31, 2002
	(Dollars in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	$ 934,139	$ 1,298,936
Accounts receivable		
Due from customers, less allowance of $23,572 and $24,627, respectively	256,982	272,997
Other, principally connecting companies, less allowance of $11,477 and $15,848, respectively	143,290	175,036
Federal income tax receivable		40,000
Materials and supplies, at average cost	57,259	72,441
Other current assets	80,569	88,602
	1,472,239	1,948,012
INVESTMENTS		
Marketable equity securities	2,207,544	1,944,939
Wireless license costs	1,111,780	1,038,556
Wireless license rights	47,158	
Goodwill	1,007,461	1,106,451
Customer lists, net of accumulated amortization of $19,453 and $6,567, respectively	27,201	40,087
Investments in unconsolidated entities	222,529	205,995
Notes receivable, less valuation allowance of $55,144 and $55,144, respectively	6,476	7,287
Other investments	15,374	14,914
	4,645,523	4,358,229
PROPERTY, PLANT AND EQUIPMENT, NET		
U.S. Cellular	2,229,829	2,148,432
TDS Telecom	1,050,029	1,047,811
	3,279,858	3,196,243
OTHER ASSETS AND DEFERRED CHARGES		
Derivative asset		2,630
Other	88,405	96,914
	88,405	99,544

TOTAL ASSETS	$	9,486,025	$	9,602,028

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS EQUITY

Unaudited

	September 30, 2003 (As Restated)	December 31, 2002
	(Dollars in thousands)	
CURRENT LIABILITIES		
Current portion of long-term debt	$ 19,210	$ 64,482
Notes payable	471,368	461,792
Accounts payable	250,763	361,758
Advance billings and customer deposits	108,469	95,922
Accrued interest	20,866	31,751
Accrued taxes	49,354	34,413
Accrued compensation	56,820	58,678
Other current liabilities	52,429	58,370
	1,029,279	1,167,166
DEFERRED LIABILITIES AND CREDITS		
Net deferred income tax liability	1,259,149	1,170,505
Derivative liability	222,685	61,160
Asset retirement obligations	93,103	
Other	62,811	55,645
	1,637,748	1,287,310
LONG-TERM DEBT		
Long-term debt, excluding current portion	1,565,187	1,641,624
Prepaid forward contracts	1,668,656	1,656,616
	3,233,843	3,298,240
MINORITY INTEREST IN SUBSIDIARIES	508,153	489,735
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES of Subsidiary Trust Holding Solely Company Subordinated Debentures		300,000
PREFERRED SHARES	6,554	6,954
COMMON STOCKHOLDERS EQUITY		

Common Shares, par value $.01 per share; authorized 100,000,000 shares; issued and outstanding 56,138,000 and 55,875,000 shares, respectively		561		559
Series A Common Shares, par value $.01 per share; authorized 25,000,000; issued and outstanding 6,438,000 and 6,602,000 shares, respectively		64		66
Capital in excess of par value		1,836,384		1,832,806
Treasury Shares, at cost, 5,136,000 and 3,799,000 shares, respectively		(459,023)		(404,169)
Accumulated other comprehensive income		252,290		191,704
Retained earnings		1,440,172		1,431,657
		3,070,448		3,052,623
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	9,486,025	$	9,602,028

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

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TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The consolidated financial statements included herein have been prepared by TDS, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America 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.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position as of September 30, 2003 and December 31, 2002, the results of operations for the three and nine months ended September 30, 2003 and 2002 and the cash flows for the nine months ended September 30, 2003 and 2002. The results of operations for the three and nine months ended September 30, 2003, are not necessarily indicative of the results to be expected for the full year.

Certain amounts reported in prior periods have been reclassified to conform to the current period presentation. The allocation of certain costs between cost of services and selling, general and administrative expenses for the competitive local exchange operations has been revised for the three and nine months ended September 30, 2003 and 2002. Total expenses have not changed.

U.S. Cellular and TDS adopted Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations, in January 2003. In the fourth quarter of 2003, U.S. Cellular revised the probability that its lease cell sites would require remediation resulting in TDS restating its financial statements for the three and nine months ended September 30, 2003. See Note 19 Restatement of Financial Statements and Note 7 - Cumulative Effect of Accounting Changes.

U.S. Cellular, an 82.2%-owned subsidiary of TDS, made changes to its accounting policies which required TDS to restate certain items on its statement of operations for the three and nine months ended September 30, 2002. See Note 6 Effects of 2002 Accounting Changes for the impact on operating income, net income (loss) and earnings per share.

2. Summary of Significant Accounting Policies

Assets and Liabilities of Operations Held for Sale

TDS accounts for the disposal of long-lived assets in accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets . When long-lived assets meet the held for sale criteria set forth in SFAS No. 144, the balance sheet will reflect the assets and liabilities of the properties to be disposed of as assets and liabilities of operations held for sale. The assets and liabilities of operations held for sale will be presented separately in the asset and liability sections of the balance sheet. The revenues and expenses of the properties to be disposed of will be included in operations until the transaction is completed. See Note 11 - Acquisitions and Divestitures Completed for the discussion of the sale and exchange of long-lived assets.

Stock-Based Compensation

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

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No compensation costs have been recognized for the stock option and employee stock purchase plans. Had compensation costs for all plans been expensed and the value determined consistent with SFAS No. 123, TDS s net income (loss) available to common and earnings per share would have been the following pro forma amounts.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003 (As Restated)	2002	2003 (As Restated)	2002
	(Dollars in thousands, except per share amounts)			
Net Income (Loss) Available to Common				
As Reported	$ 32,901	$ (20,593)	$ 35,388	$ (955,225)
Pro Forma Expense	(4,812)	(2,864)	(9,201)	(8,591)
Pro Forma Net Income (Loss) Available to Common	$ 28,089	$ (23,457)	$ 26,187	$ (963,816)
Basic Earnings (Loss)Per Share				
As Reported	$ 0.57	$ (0.35)	$ 0.61	$ (16.29)
Pro Forma Expense Per Share	(0.08)	(0.05)	(0.16)	(0.15)
Pro Forma Basic Earnings (Loss) Per Share	$ 0.49	$ (0.40)	$ 0.45	$ (16.44)
Diluted Earnings (Loss) Per Share				
As Reported	$ 0.57	$ (0.35)	$ 0.61	$ (16.29)
Pro Forma Expense Per Share	(0.08)	(0.05)	(0.16)	(0.15)
Pro Forma Diluted Earnings (Loss) Per Share	$ 0.49	$ (0.40)	$ 0.45	$ (16.44)

Recent Accounting Pronouncements

FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, was issued in January 2003, and is effective for all variable interests in variable interest entities created after January 31, 2003, and is effective October 1, 2003 for variable interests in variable interest entities created before February 1, 2003. This Interpretation clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to 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. TDS has reviewed the provisions of FIN 46 and has determined that it will, as of the effective date of FIN 46, include in consolidated results the operations of an entity that it currently accounts for using the equity method of accounting. This change, pursuant to the adoption of FIN 46, is not anticipated to have a material impact on TDS s future financial position or results of operations.

SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, was issued in April 2003, and is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. TDS adopted the provisions of this Standard to contracts entered into or modified after June 30, 2003 and to hedging relationships designated after June 30, 2003. There was no effect on TDS s financial position or results of operations.

SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, was issued in May 2003, and for TDS is effective for financial instruments entered into or modified after May 31, 2003, and otherwise beginning July 1, 2003. SFAS No. 150 requires freestanding financial instruments within its scope to be recorded as a liability in the financial statements. Freestanding financial instruments include mandatorily redeemable financial instruments, obligations to repurchase issuer s equity shares and certain obligations to issue a variable number of issuer s shares. As of September 30, 2003, TDS had no freestanding financial instruments within the scope of SFAS No. 150 and therefore, that portion of this Statement did not have any effect on TDS s financial position or results of operations.

TDS had two subsidiary trusts, TDS Capital I and TDS Capital II that would have been considered freestanding financial instruments under SFAS 150 and variable interest entities pursuant to FIN 46. TDS Capital I had outstanding 6,000,000 8.5% Company-Obligated Mandatorily Redeemable Preferred Securities. The sole asset of TDS Capital I was $154.6 million principal amount of TDS s 8.5% Subordinated Debentures due December 31, 2037. TDS Capital II had outstanding 6,000,000 8.04% Company-Obligated Mandatorily Redeemable Preferred Securities. The sole asset of TDS

Capital II was $154.6 million principal amount of TDS s 8.04% Subordinated Debentures due March 31, 2038.

On September 2, 2003, the subsidiary trusts, TDS Capital I and TDS Capital II redeemed all of their outstanding Trust Originated Preferred Securities (TOPrS[SM]). The redemption price of both the 8.5% and 8.04% TOPrS was equal to 100% of the principal amount, or $25.00 per security, plus accrued and unpaid distributions.

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

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, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* . 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 $83.5 million at September 30, 2003. 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, 2003, net of estimated liquidation costs. This amount is being disclosed pursuant the requirements of FSP FAS150-3; 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, 2003 is $32.3 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 $51.2 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 under U.S. GAAP. The estimate of settlement value was based on certain factors and assumptions. Change in those factors and assumptions could result in a materially larger or smaller settlement amount.

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 our mandatorily redeemable minority interests at their settlement value at a later date.

3. Asset Retirement Obligation (As Restated)

SFAS No. 143, Accounting for Asset Retirement Obligations, was issued in June 2001, and became effective for TDS beginning January 1, 2003. SFAS No. 143 requires entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to retire the asset and the liability recorded is recognized in the statement of operations as a gain or loss.

U.S. Cellular is subject to asset retirement obligations associated primarily with its cell sites, retail sites and office locations. 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 lease 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 143, and has recorded a $54.4 million liability upon adoption. TDS also recorded a charge for a non-cash cumulative change in accounting principle of $11.8 million representing accumulated accretion and depreciation through December 31, 2002. The U.S. Cellular asset retirement obligation increased by $7.5 million to $61.9 million as of September 30, 2003. The increase was due to additional liabilities incurred of $4.2 million and accretion of $3.3 million. See Note 19 Restatement of Financial Statements for a discussion of the periodic impact due to accretion and depreciation.

In accordance with the transition rules of SFAS No. 143, the following pro forma amounts show the effect of the retroactive application of the change in accounting principle for the adoption of SFAS No. 143:

	Three months ended September 30,		Nine months ended September 30,	
	2003	**2002**	**2003**	**2002**
Actual				
Net income (loss)	$ 33,005	$ (20,488)	$ 35,700	$ (954,902)
Basic earnings per share	$ 0.57	$ (0.35)	$ 0.61	$ (16.29)
Diluted earnings per share	$ 0.57	$ (0.35)	$ 0.61	$ (16.29)
Pro forma				
Net income (loss)	$ 33,005	$ (21,099)	$ 47,489	$ (956,709)
Basic earnings per share	$ 0.57	$ (0.36)	$ 0.81	$ (16.32)
Diluted earnings per share	$ 0.57	$ (0.36)	$ 0.81	$ (16.32)

	At December 31, 2002	At January 1, 2002
Pro forma - Balance Sheet Data		
Asset Retirement Obligation	$ 54,438	$ 45,246

TDS Telecom s incumbent local telephone companies follow the provisions of SFAS No. 71, and therefore conform to the regulatory accounting principles as prescribed by the respective state public utility commissions and the Federal Communications Commission (FCC), and where applicable, accounting principles generally accepted in the United States of America. On December 20, 2002, the FCC notified carriers by Order that it will not adopt SFAS No. 143 since the FCC concluded that SFAS No. 143 conflicted with the FCC s current accounting rules that require incumbent local telephone companies to accrue for asset retirement obligations through prescribed depreciation rates. Pursuant to the FCC s order, and the provisions of SFAS No. 71, the incumbent local telephone companies continue to accrue asset retirement obligations as a component of depreciation expense pursuant to depreciation rates set forth by the respective state public utility commissions.

At January 1, 2003, upon implementation of SFAS No. 143, TDS Telecom determined the amount of the incumbent local telephone companies asset retirement obligations required to be recorded was $29.9 million, and this asset retirement obligation was reclassified from accumulated depreciation to deferred liabilities and credits under the provisions of SFAS No. 143. The asset retirement obligation under SFAS No. 143 has increased to $31.2 million at September 30, 2003. After the effect of this reclassification, the incumbent local telephone companies have an amount of $25.4 million as of January 1, 2003 ($27.7 million as of September 30, 2003) that remains in accumulated depreciation that represents asset retirement costs that have been accrued in accordance with depreciation rates promulgated by the respective state public utility commissions, which are in excess of asset retirement costs that are required to be accrued under the provisions of SFAS No. 143. The accounting guidelines of the state public utility commission and the FCC provide that such costs of removal be recorded as accumulated depreciation. These costs of removal are recorded based upon the guidelines of the incumbent local telephone companies regulators and are not an asset retirement obligation as defined by SFAS No. 143. The adoption of SFAS No. 143 by TDS Telecom s incumbent local telephone companies did not have a material effect on TDS s financial position or results of operations.

TDS Telecom s competitive local telephone companies adopted SFAS No. 143 effective January 1, 2003. TDS Telecom determined that its competitive local telephone companies do not have a material legal obligation to remove long-lived assets as described by SFAS 143, and accordingly, adoption of SFAS 143 did not have a material impact on the competitive local telephone companies.

At September 30, 2003, the TDS asset retirement obligation totaled $93.1 million, consisting of $61.9 million at U.S. Cellular and $31.2 million at TDS Telecom.

4. Income Taxes

Income (loss) from continuing operations includes losses from marketable securities and other investments and losses on assets held for sale for the three and nine months ended September 30, 2003 and 2002. 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,**	
	2003	**2002**	**2003**	**2002**
	As Restated	**As Restated**	**As Restated**	**As Restated**
Effective Tax Rate From				
Income from continuing operations excluding loss on marketable securities and other investments and loss on assets held for sale	42.2%	43.3%	42.4%	43.6%
Loss on marketable securities and other investments and loss on assets held for sale(1)	N/M	(36.2)%	(4.1)%	(38.9)%
Income (Loss) from continuing operations	51.8%	(6.9)%	53.4%	(38.0)%

(1) The effective tax rate related to the provision for Loss on marketable securities and other investments and loss on assets held for sale is not meaningful. Because TDS s tax basis in the assets transferred to AT&T Wireless was lower than its book basis it was necessary for TDS to record a tax provision of $9.8 million at the time of this transfer in the third quarter of 2003. TDS had previously disclosed that it had anticipated that this amount would be approximately $12 million.

5. (Losses) on Marketable Securities and Other Investments

U.S. Cellular recorded a license cost impairment loss of $3.5 million in the first quarter of 2003 related to the investment in a non-operating market in Florida that remained with U.S. Cellular upon completion of the exchange with AT&T Wireless. See Note 11 Acquisitions and Divestitures Completed for further information regarding the exchange transaction with AT&T Wireless.

TDS also recorded an impairment loss of $5.0 million in the second quarter of 2003 on a cellular market investment held by TDS Telecom in conjunction with its annual license cost and goodwill impairment testing.

The loss on marketable securities and other investments in 2002 includes an other than temporary investment loss of $1,756.5 million ($1,044.4 million, net of $686.2 million of income taxes and $25.9 million of minority interest) on TDS s marketable securities. The adjusted cost basis of TDS s marketable securities was written down to market value upon determining that the unrealized losses on the securities were other than temporary.

TDS had notes receivable from Airadigm and Kington Management Corporation aggregating $100.6 million relating to the funding of Airadigm s operations and the purchase by Kington of certain of U.S. Cellular s minority interests in 2000. The value of the notes were directly related to the value of certain assets and contractual rights of Airadigm and the value of the minority cellular market interests. As a result of changes in management strategies and other events, a review of the Airadigm business plan and a review of the fair market analysis of the cellular markets, including third party fair value analysis, management concluded that the notes receivable were impaired and, accordingly recorded an impairment charge of $90.1 million ($53.6 million, net of tax of $32.6 million and minority interest of $3.9 million) in the third quarter of 2002.

6. Effects of 2002 Accounting Changes

U.S. Cellular made certain changes to its accounting policies in the fourth quarter of 2002 which required TDS and U.S. Cellular to restate certain items on its income statement for the three and nine month periods ending September 30, 2002. The impact of these changes in accounting policies on the prior periods is presented below.

	Three Months Ended September 30, 2002		
	As Reported	Changes	As Restated
	(Dollars in thousands, except per share amounts)		
Effects of 2002 Accounting Changes			
Operating Revenues			
Changes related to EITF 01-09 reclassification (1)	$	$ (14,850)	$
Changes related to EITF 01-09 accrual (1)		(2,935)	
	801,887	(17,785)	784,102
Operating Expenses			
Changes related to EITF 01-09 reclassification (1)		(14,850)	
Changes related to SAB 101(2)		(936)	
	705,678	(15,786)	689,892
Operating Income	96,209	(1,999)	94,210
Net (Loss)	$ (19,511)	$ (977)	$ (20,488)
Earnings Per Share Net (Loss)			
Basic	$ (0.33)	$ (0.02)	$ (0.35)
Diluted	$ (0.33)	$ (0.02)	$ (0.35)

	Nine Months Ended September 30, 2002		
	As Reported	Changes	As Restated
	(Dollars in thousands, except per share amounts)		
Effects of 2002 Accounting Changes			
Operating Revenues			
Changes related to EITF 01-09 reclassification (1)	$	$ (18,221)	$
Changes related to EITF 01-09 accrual (1)		(2,935)	
	2,190,898	(21,156)	2,169,742
Operating Expenses			
Changes related to EITF 01-09 reclassification (1)		(18,221)	
Changes related to SAB 101(2)		(2,989)	
	1,868,083	(21,210)	1,846,873
Operating Income	322,815	54	322,869
Income (Loss) before Cumulative Effect of Accounting Change	(958,295)	27	(958,268)
Cumulative Effect of Accounting Change (2)		3,366	3,366
Net Income (Loss)	$ (958,295)	$ 3,393	$ (954,902)

Earnings Per Share Cumulative Effect of Accounting Change						
Basic	$		$	0.06	$	0.06
Diluted	$		$	0.06	$	0.06
Earnings Per Share Net (Loss)						
Basic	$	(16.35)	$	0.06	$	(16.29)
Diluted	$	(16.35)	$	0.06	$	(16.29)

(1) U.S. Cellular changed its accounting for certain rebate transactions pursuant to Emerging Issues Task Force Statement (EITF) No. 01-09 in the fourth quarter of 2002. Under EITF No. 01-09, all rebates paid to agents who participate in qualifying new activation and retention transactions are recorded as a reduction of equipment sales revenues. Previously, U.S. Cellular had recorded new activation rebates as marketing and selling expense and retention rebates as general and administrative expense. Further, these rebates are now recorded at the time handsets are sold by U.S. Cellular to these agents. Previously, U.S. Cellular recorded these transactions at the time the handsets were delivered by agents to U.S. Cellular s customers.

(2) U.S. Cellular changed its accounting policy related to certain transactions pursuant to Staff Accounting Bulletin (SAB) No. 101 during the fourth quarter of 2002. U.S. Cellular had adopted SAB No. 101 as of January 1, 2000, and began deferring

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certain customer activation fees as of that date. As permitted by SAB No. 101, as of January 1, 2002, U.S. Cellular began deferring commission expenses equal to the amount of activation fees deferred. In conjunction with this change, TDS recorded a $3.4 million addition to net income as of January 1, 2002, related to commission expenses which would have been deferred in prior years had U.S. Cellular adopted its new policy at the time it adopted SAB No. 101.

7. Cumulative Effect of Accounting Changes (As restated)

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

Effective January 1, 2002, U.S. Cellular changed its method of accounting for commission expenses related to customer activations and began deferring expense recognition of a portion of commission expenses equal to the amount of activation fees revenue deferred. U.S. Cellular believes this change is a preferable method of accounting for such costs primarily due to the fact that the new method of accounting provides for better matching of revenue from customer activations to direct incremental costs associated with these activations within each reporting period. The cumulative effect of this accounting change on periods prior to 2002 was recorded in 2002 increasing net income by $3.4 million, net of tax and minority interest, or $0.06 per diluted share.

8. 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,	
Basic Earnings per Share	**2003**	**2002**	**2003**	**2002**
	As Restated	**As Restated**	**As Restated**	**As Restated**
	(Dollars in thousands)			
Income (Loss) from Continuing Operations	$ 34,614	$ (20,488)	$ 49,098	$ (958,268)
Less: Preferred Dividend requirement	104	105	312	323
Income (Loss) from Continuing Operations Available to Common	34,510	(20,593)	48,786	(958,591)
Discontinued Operations	(1,609)		(1,609)	
Cumulative Effect of Accounting Changes			(11,789)	3,366
Net Income (Loss) Available to Common used in Basic Earnings per Share	$ 32,901	$ (20,593)	$ 35,388	$ (955,225)

	Three Months Ended September 30,		Nine Months Ended September 30,	
Diluted Earnings per Share	**2003**	**2002**	**2003**	**2002**
	As Restated	**As Restated**	**As Restated**	**As Restated**
	(Dollars in thousands)			
Income (Loss) from Continuing Operations Available to Common used in Basic Earnings per Share	$ 34,510	$ (20,593)	$ 48,786	$ (958,591)
Reduction in preferred dividends if Preferred Shares Converted into Common Shares	50			
Minority Income Adjustment (1)	(210)		(218)	
Income (Loss) from Continuing Operations Available to Common	34,350	(20,593)	48,568	(958,591)
Discontinued Operations	(1,609)		(1,609)	
Cumulative Effect of Accounting Changes			(11,789)	3,366
Net Income (Loss) Available to Common used in Diluted Earnings per Share	$ 32,741	$ (20,593)	$ 35,170	$ (955,225)

(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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
	(Shares in thousands)			
Weighted Average Number of Common Shares used in Basic Earnings per Share	57,420	58,660	57,829	58,633
Effect of Dilutive Securities				

Stock Options (2)	227		95	
Common shares outstanding if Preferred Shares Converted	146			
Weighted Average Number of Common Shares used in Diluted Earnings per Share	57,793	58,660	57,924	58,633

(2) Stock options and preferred shares convertible into 1,580,385 and 1,587,226 Common Shares in three and nine months ended September 30, 2002, respectively, were not included in computing Diluted Earnings per Share because their effects were antidilutive. Stock options and preferred shares convertible into 1,365,197 and 1,672,044 Common Shares in the three and nine months ended September 30, 2003, respectively, were not included in computing Diluted Earnings per Share because their effects were antidilutive.

	Three Months Ended September 30, 2003 As Restated		Three Months Ended September 30, 2002 As Restated		Nine Months Ended September 30, 2003 As Restated		Nine Months Ended September 30, 2002 As Restated	
Basic Earnings (Loss) per Share								
Continuing Operations	$	0.60	$	(0.35)	$	0.84	$	(16.35)
Discontinued Operations		(0.03)				(0.03)		
Cumulative Effect of Accounting Changes						(0.20)		0.06
	$	0.57	$	(0.35)	$	0.61	$	(16.29)
Diluted Earnings (Loss) per Share								
Continuing Operations	$	0.60	$	(0.35)	$	0.84	$	(16.35)
Discontinued Operations		(0.03)				(0.03)		
Cumulative Effect of Accounting Changes						(0.20)		0.06
	$	0.57	$	(0.35)	$	0.61	$	(16.29)

9. Marketable Equity Securities

TDS and its subsidiaries hold a substantial amount of marketable equity securities that are publicly traded and can have volatile share prices. TDS does not make direct investments in publicly traded companies and all of these interests were acquired as a result of sales, exchanges or reorganizations of other investments. The market values of the marketable securities may fall below the accounting cost basis of such securities. If management determines the decline in value of the marketable securities to be other than temporary , the unrealized loss included in other comprehensive income is recognized and recorded as a loss in the Statement of Operations.

During the nine months ended September 30, 2002, management determined that the decline in the value of the marketable securities relative to its accounting cost basis was other than temporary and charged a $1,756.5 million loss to the Statement of Operations ($1,044.4 million, net of tax of $686.2 million, and minority interest of $25.9 million) and reduced the accounting cost basis of the marketable securities by a corresponding amount. The loss was reported in the caption Gain (loss) on marketable securities and other investments in the Statement of Operations.

TDS and subsidiaries have entered into a number of forward contracts in 2002 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 risk of an other than temporary loss being recorded on these contracted securities.

Information regarding TDS s marketable equity securities and the components of accumulated other comprehensive income are summarized as follows.

	September 30, 2003	December 31, 2002
	(Dollars in thousands)	

Marketable Equity Securities Fair Value				
Deutsche Telekom AG - 131,461,861 ordinary shares	$	1,906,197	$	1,689,285
Vodafone Group Plc 12,945,915 ADRs		262,155		234,580
VeriSign, Inc. 2,361,333 and 2,525,786 common shares		31,784		20,257
Rural Cellular Corporation - 719,396 equivalent common shares		7,194		611
Other		214		206
Aggregate Fair Value		2,207,544		1,944,939
Accounting Cost Basis		1,543,934		1,545,713
Gross Unrealized Holding Gains		663,610		399,226
Income Tax (Expense)		(259,140)		(155,794)
Unrealized Holding Gains, net of tax		404,470		243,432
Derivatives, net of tax		(148,713)		(50,508)
Equity Method Unrealized Gains		126		615
Minority Share of Unrealized Holding (Gains)		(3,593)		(1,835)
Accumulated Other Comprehensive Income	$	252,290	$	191,704

10. Goodwill and Customer Lists

TDS has recorded goodwill as a result of the acquisition of wireless licenses and markets, and the acquisition of operating telephone companies. Included in U.S. Cellular s goodwill is goodwill related to various acquisitions structured to be tax-free. No deferred taxes have been provided on goodwill related to tax-free acquisitions.

The changes in the carrying amount of goodwill for the nine months ended September 30, 2003 and 2002, were as follows. TDS Telecom s incumbent local exchange carrier is designated as ILEC and its competitive local exchange carrier is designated as CLEC in the table.

	U.S.	TDS Telecom			
(Dollars in thousands)	**Cellular**	**ILEC**	**CLEC**	**Other(1)**	**Total**
Beginning Balance January 1, 2003	$ 643,629	$ 397,482	$ 29,440	$ 35,900	$ 1,106,451
Divestiture	(93,658)				(93,658)
Impairment loss(2)				(5,000)	(5,000)
Other	(191)	(141)			(332)
Ending Balance September 30, 2003	$ 549,780	$ 397,341	$ 29,440	$ 30,900	$ 1,007,461
Beginning Balance January 1, 2002	$ 473,975	$ 332,848	$ 29,440	$ 34,538	$ 870,801
Acquisitions	155,566	60,936			216,502
Other		825		1,362	2,187
Ending Balance September 30, 2002	$ 629,541	$ 394,609	$ 29,440		