

local exchange carriers recovered \$1.4 million of bad debt write-offs related to WorldCom and Global Crossing bankruptcies in 2002 and reduced bad debt expenses by \$7.4 million as a result of improved credit policies. Expenses in 2002 include a \$2.4 million charge relating to the bankruptcies discussed above and an increase in retail bad debt expense of \$8.6 million. In 2003, TDS Metrocom recorded a \$4.6 million loss on impairment of assets in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." This impairment relates to assets in a market that TDS Metrocom subsequently decided not to enter.

*Operating loss* totaled \$26.0 million in 2003, \$62.7 million in 2002 and \$43.0 million in 2001. Operating losses from competitive local exchange operations decreased in 2003 due to increased revenues from customers and a reduction in market expansion costs.

### *Effects of Wireless Number Portability*

The FCC has mandated that all local exchange carriers throughout the country be capable of facilitating wireless number portability as of November 24, 2003 but has delayed the effective date of that requirement until May 24, 2004 for local exchange carriers serving areas outside the largest 100 metropolitan statistical areas. The wireless number portability requirement is triggered by the local exchange carrier's receipt of a request from a wireless carrier providing service in the local exchange carrier's service area asking that the local exchange carrier implement number portability in a particular switch. Depending on the technical changes in the switch which are required, the local exchange carrier may take up to six months from the date of the request to implement the capability for portability.

Local exchange carriers in areas outside the top 100 metropolitan statistical areas may implement wireless number portability requirements within up to six months of the relevant request or by May 24, 2004, whichever is later. Local exchange carriers may seek waivers or extensions of these deadlines pursuant to the Communications Act and the FCC's rules. In addition, any of the nation's local exchange carriers that serve less than two percent of the nation's access lines can submit a petition to the appropriate state commission asking for a suspension in implementing local number portability if the petitioning carrier can demonstrate that a request is technically infeasible and/or not in the public interest.

The implementation of wireless number portability has not had a material effect on TDS Telecom's results of operations to date. However, TDS is unable to predict the impact that the implementation of wireless number portability will have on the business of TDS Telecom in the future.

## INFLATION

Management believes that inflation affects TDS's business to no greater extent than the general economy.

## RECENT ACCOUNTING PRONOUNCEMENTS

Financial Accounting Standards Board ("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 modifies the requirements for consolidation of investments previously contained in Accounting Research Bulletin No. 51, "Consolidated Financial Statements." Under FIN 46 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. In December 2003, the FASB issued FIN 46R, "Consolidation of Variable Interest Entities," which among other things, deferred the application of FIN 46 by public entities with interest in variable interest entities referred to as special purpose entities until periods ending after December 15, 2003 and by public entities for all other types of variable interest entities until periods ending after March 15, 2004. TDS has reviewed the provisions of FIN 46R and does not anticipate that the adoption of FIN 46R will have a material impact on TDS's future financial position or results of operations.

## FINANCIAL RESOURCES

The following table shows certain information relating to TDS's financial resources and requirements.

Year Ended December 31,	2003	2002	2001
(Dollars in thousands)			
Cash flows from (used in)			
Operating activities	\$ 920,413	\$ 793,637	\$ 545,805
Investing activities	(700,490)	(1,366,584)	(519,858)
Financing activities	(581,208)	1,731,139	15,778
Net increase (decrease)			
in cash and			
cash equivalents	\$ (361,285)	\$ 1,158,192	\$ 41,725

**Cash Flows From Continuing Operating Activities** represents a significant source of funds to TDS. Income from continuing operations excluding adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities, excluding changes in assets and liabilities from operations ("noncash items") totaled \$792.4 million in 2003, \$815.5 million in 2002 and \$583.7 million in 2001. Changes in assets and liabilities from operations provided \$128.0 million in 2003, and required \$21.9 million in 2002 and \$37.9 million in 2001, reflecting timing differences in the collection of accounts receivable, payment of accounts payable