

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

Telephone and Data Systems, Inc. ("TDS") is a diversified telecommunications company providing high-quality telecommunications services to approximately 5.5 million wireless telephone and wireline telephone equivalent access lines in 36 states at December 31, 2003. TDS conducts substantially all of its wireless telephone operations through its 82.1%-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 audited consolidated financial statements and footnotes included herein and the description of TDS's business included in Item 1 of the TDS Annual Report on Form 10-K for the year ended December 31, 2003, as amended.

TDS has restated certain portions of its management's discussion and analysis of results of operations and financial condition included in its Annual Report on Form 10-K for the year ended December 31, 2003 that was originally filed on March 12, 2004. The restatement of TDS's 2003 and 2002 financial statements relates 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 over tangible assets and liabilities acquired to wireless license costs and goodwill. At that time, the accounting treatment for the 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 has 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 \$10.4 million (\$20.9 million before income taxes of \$8.2 million and minority interest of \$2.3 million). This impairment has been recorded as a cumulative effect of an accounting change at January 1, 2002, the date of the adoption of SFAS 142.

In the first quarter of 2003, TDS had recorded a loss on assets 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 held for sale in the first quarter of 2003 was recognized in the first quarter of 2002. Consequently, loss on assets

held for sale in 2003 has been reduced by \$1.9 million, before income taxes 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 has been 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 has been 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 income taxes of \$19.6 million and minority interest of \$5.4 million. This additional loss has been recorded in the second quarter of 2003. See the Restatement section of Note 1 – Summary of Significant Accounting Policies.

Amounts reported in this discussion and analysis for 2003 and 2002 reflect amounts as restated.

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 discussion and analysis and not rely solely on the overview.

U.S. Cellular – U.S. Cellular positions itself as a regional operator, focusing its efforts on providing wireless service to customers in the geographic areas where it has licenses to provide such service. U.S. Cellular differentiates itself from its competitors through a customer satisfaction strategy, reflecting 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. Three of U.S. Cellular's most recent transactions are summarized below.

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

U.S. Cellular has deferred the assignment and development of 21 licenses it has the right to acquire from AT&T Wireless for up to five years from the original closing date of August 1, 2003. When this transaction is fully consummated, U.S. Cellular will have received 36 wireless licenses in 13 states, approximately \$34 million in cash and minority interests in six licenses in which it previously owned the controlling interest. The licenses received are contiguous to and overlap existing U.S. Cellular licensed areas in the Midwest and Northeast.

- On November 26, 2003, U.S. Cellular announced that it had entered into a definitive agreement to sell its wireless properties in southern Texas to AT&T Wireless. The closing of the transaction occurred in February 2004. The U.S. Cellular assets sold to AT&T Wireless in this transaction included wireless properties in six markets and 76,000 customers.
- On August 7, 2002, U.S. Cellular completed the acquisition of a 20 megahertz license in the Chicago basic trading area (excluding Kenosha, Wisconsin). U.S. Cellular acquired 320,000 customers in this transaction. This acquisition was important to U.S. Cellular as it filled in U.S. Cellular's coverage area in the Midwest, enabling it to expand its network to cover a contiguous area including most of Illinois, Wisconsin and Iowa.

U.S. Cellular operating income decreased 58% in 2003 and decreased 11% in 2002 primarily due to expenses related to increased customer usage along with development of the Chicago market. U.S. Cellular's operating income was significantly affected by the loss on assets held for sale and the loss on impairment of intangible assets in 2003. The operating income margins (as a percent of service revenues) were 4.9% in 2003, 13.4% in 2002 and 17.4% in 2001. TDS expects continued pressure on U.S. Cellular operating income and margins in the next few years due to slower customer growth, customer acquisition and retention, competition, increased customer usage, launching service in new areas and continued enhancements to its wireless networks. In the exchange and divestiture transactions listed above, U.S. Cellular has divested operations that were generating revenues, cash flows from operations and operating income. In exchange, U.S. Cellular received or will receive licenses that will be in a development phase for several years and also received cash. U.S. Cellular anticipates that it may require debt or equity financing over the next few years for capital expenditures, for the development of these new markets and to further its growth in the Chicago market and its other recently launched markets.

See "Results of Operations – Wireless Telephone Operations."

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

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

Despite these challenges, TDS Telecom was able to increase customers and revenues in 2003 primarily through the increase in penetration of existing markets by its competitive local exchange operations. While the incumbent local exchange carrier operations increased revenues by four percent in 2003, the competitive local exchange operations increased revenues by 21%. TDS Telecom continues to look for ways to control costs while increasing the penetration of its competitive local exchange markets.

See "Results of Operations – Wireline Telephone Operations."

Financing Initiatives – TDS and its subsidiaries had Cash and cash equivalents totaling \$937.7 million, \$1,296.6 million of revolving credit facilities and an additional \$75.0 million of bank lines of credit as of December 31, 2003. TDS and its subsidiaries are also generating substantial internal funds from operations. Cash flow from continuing operating activities totaled \$920.4 million in 2003, \$793.6 million in 2002 and \$545.8 million in 2001. In addition, TDS currently has access to public and private capital markets to help meet its 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 the Chicago market. 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 its contractual obligations and anticipated capital expenditures.

TDS is committed to maintaining a strong balance sheet and its investment grade rating. During 2003 and 2002, TDS entered into several financing transactions that have provided financial flexibility as it continues to grow its wireless and wireline businesses.

TDS reduced its debt by redeeming \$300 million of its Trust Originated Preferred Securities in 2003. Medium-term notes of \$70.5 million and \$51.0 million were redeemed in 2003 and 2002, respectively. TDS also repurchased 1,961,000 of its Common Shares for \$92.4 million, or an average price of \$47.10 in 2003.

U.S. Cellular sold \$444 million of 30-year 6.7% Senior Notes in 2003 and \$130 million of 30-year 8.75% Senior Notes in 2002 under an existing shelf registration statement. In December 2003, U.S. Cellular increased the capacity of its revolving credit agreement entered into in 2002 from \$325 million to \$700 million. U.S. Cellular also terminated its \$500 million revolving credit agreement it had in place since 1997.

In 2002, TDS and U.S. Cellular monetized their investments in marketable equity securities through forward contracts which mature in 2007 and 2008, receiving proceeds of \$1.6 billion.

See "Financial Resources" and "Liquidity and Capital Resources."

RESULTS OF OPERATIONS

Operating Revenues increased 15% (\$446.7 million) to \$3,445.2 million during 2003 and increased 16% (\$410.0 million) to \$2,998.5 million during 2002 from \$2,588.5 million in 2001 reflecting growth in wireless customers and equivalent access lines in both years. Despite the transfer of 141,000 wireless customers to AT&T Wireless in August, wireless customers and equivalent access lines increased by 390,400 in 2003. There were no acquisitions in 2003. In 2002, internal growth added 415,200 wireless customers and equivalent access lines, while acquisitions contributed 332,000 additional wireless customers and 27,000 additional equivalent access lines. U.S. Cellular revenues increased \$385.2 million to \$2,582.8 million in 2003 and increased \$302.8 million to \$2,197.6 million in 2002 from \$1,894.8 million in 2001 on 7% and 19% increases in customers, respectively. The acquisition of the Chicago market and two small markets contributed customer growth of 10% in 2002 at U.S. Cellular. TDS Telecom revenues increased \$61.5 million to \$862.4 million in 2003 and increased \$107.2 million to \$800.9 million in 2002 from \$693.7 million in 2001 as equivalent access lines increased by 8% and 15%, respectively. The increase in equivalent access lines is primarily related to the growth in the competitive local exchange operations. Acquisitions contributed equivalent access line growth of 3% in 2002 at TDS Telecom.

Operating Expenses rose 22% (\$565.2 million) to \$3,177.3 million in 2003 and rose 21% (\$459.7 million) to \$2,612.1 million in 2002 from \$2,152.4 million in 2001. U.S. Cellular operating expenses increased \$547.4 million to \$2,463.8 million during 2003 and increased \$338.8 million to \$1,916.4 million during 2002 from \$1,577.6 million in 2001 due primarily to the costs associated with providing service to an expanding customer base, additional depreciation expense and acquisitions. Also included in U.S. Cellular's operating expenses in 2003 is \$45.9 million of losses on assets of operations held for sale and \$49.6 million of losses on impairment of intangible assets. TDS Telecom operating expenses increased \$17.8 million to \$713.5 million during 2003 and increased \$121.0 million to \$695.7 million during 2002 from \$574.7 million in 2001. The increase in 2003 was primarily caused

by increased cost of services and products, offset somewhat by a decline in competitive local exchange carrier costs by not entering new markets. The increase in 2002 was a result of the expansion of the competitive local exchange business, acquisitions and growth in incumbent local exchange carrier products and services. Also included in TDS Telecom's operating expenses in 2003 was \$5.0 million of losses recorded on impairment of assets. Of this amount, \$4.6 million was recorded by the competitive local exchange carriers and \$0.4 million was recorded by the incumbent local exchange carriers. Operating expenses for all operations in 2003 and 2002 do not include amortization of license costs and goodwill as a result of the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142 effective January 1, 2002. Amortization expense of license costs and goodwill in 2001 totaled \$36.5 million at U.S. Cellular, \$6.6 million at the incumbent local exchange carriers and \$0.2 million at the competitive local exchange carriers.

Operating Income decreased 31% (\$118.5 million) to \$267.9 million in 2003 and decreased 11% (\$49.8 million) to \$386.4 million in 2002 from \$436.2 million in 2001. U.S. Cellular's operating income decreased 58% (\$162.2 million) to \$119.0 million in 2003 and decreased 11% (\$36.0 million) to \$281.2 million in 2002 from \$317.2 million in 2001. The decline in U.S. Cellular operating income in 2003 and 2002 reflects the costs associated with the acquisition of the Chicago market and increased marketing and depreciation expenses. U.S. Cellular's operating income was significantly affected by the loss on assets held for sale and the loss on impairment of intangible assets in 2003. TDS Telecom's operating income increased 42% (\$43.7 million) to \$148.9 million in 2003 primarily from improved results from the competitive local exchange business. TDS Telecom's operating income decreased 12% (\$13.8 million) to \$105.2 million in 2002 from \$119.0 million in 2001 primarily due to increased incumbent local exchange carrier and competitive local exchange carrier bad debts and increased operating losses from expanding the competitive local exchange carrier business.

Investment and Other Income (Expense) primarily includes dividend and interest income, investment income, gains and (losses) on marketable equity securities and other investments, loss on debt extinguishment and interest expense.

Dividend and interest income decreased by \$37.4 million to \$19.9 million in 2003 and increased by \$43.1 million to \$57.3 million in 2002 from \$14.2 million in 2001 due primarily to a \$45.3 million Deutsche Telekom common share dividend TDS received in 2002. Deutsche Telekom did not pay a dividend in 2003. The decrease in dividend income in 2003 was offset by an increase in interest income reflecting increased cash balances earning interest. Proceeds from the monetization of marketable equity securities in 2002 earned interest in short-term interest bearing accounts in 2003. See Financial Resources – Cash Flows from Continuing Financing Activities for a discussion of proceeds from the monetization activities.

Investment income, TDS's share of income in unconsolidated entities in which it has a minority interest, totaled \$53.2 million in 2003, \$43.7 million in 2002 and \$50.6 million in 2001. TDS follows the equity method of accounting when its ownership interest of unconsolidated entities equals or exceeds 20% for corporations and 3% to 5% for partnerships and limited liability companies. Under the equity method, TDS recognizes its proportionate share of the income and losses accruing to it under the terms of partnership or shareholder agreements. The aggregate net income of these investment markets increased significantly in 2003, resulting in a corresponding increase in investment income. A one-time gain was reported by an equity method investment increasing equity income by \$5.1 million in 2001.

Loss on marketable equity securities and other investments totaled \$10.2 million in 2003, \$1,888.4 million in 2002 and \$548.3 million in 2001. In 2003, TDS recorded a \$5.0 million impairment loss on a wireless investment held by TDS Telecom. Also in 2003, a \$3.5 million wireless license impairment loss was recorded related to the investment in a non-operating market in Florida that remained with U.S. Cellular after the AT&T Wireless exchange. U.S. Cellular also recorded a \$1.7 million impairment loss related to a minority investment in a wireless market that is accounted for using the cost method.

TDS and its subsidiaries hold a substantial amount of marketable equity securities that are publicly traded and can have volatile 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, exchanges or reorganizations of other assets. TDS has not disposed of the investments primarily because their low tax cost basis would trigger a substantial taxable gain upon disposition. See Liquidity and Capital Resources – Marketable Equity Securities and Forward Contracts for a discussion on marketable equity securities.

In 2002, management determined that the decline in value of marketable equity securities relative to their cost basis was other than temporary and charged a \$1,757.5 million loss to the statement of operations. TDS has subsequently utilized derivative financial instruments to eliminate the risk of recording any further other than temporary losses. See Market Risk – Marketable Equity Securities and Derivatives for a discussion of other than temporary losses.

TDS had notes receivable from Airadigm Communications, Inc. ("Airadigm") and Kington Management Corporation ("Kington") 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 values of the notes were directly related to the values of certain assets and contractual rights of Airadigm and the value of the minority wireless market interests. As a result of changes in business strategies and other events, a review of the Airadigm business plan and a review of the fair market value analysis of the wireless markets, including third party fair

value analysis, management concluded that the notes receivable were impaired. Accordingly, TDS recorded a loss of \$94.0 million in 2002 to establish a valuation allowance for the Airadigm notes receivable, write-down the Kington notes receivable and write-off of certain capitalized costs.

TDS recorded additional losses in 2002 of \$25.4 million related to the withdrawal from a partnership in which it had owned an investment interest, \$7.3 million related to the write-down of a wireless investment to fair value and \$4.2 million related to the reduction in value of a land purchase option.

In 2001, TDS realized a loss of \$644.9 million as a result of the merger between VoiceStream Wireless Corporation ("VoiceStream") and Deutsche Telekom and a gain of \$96.1 million as a result of the merger between Illuminet Holdings, Inc. and VeriSign Inc. TDS recognizes gains and losses on the difference between the accounting basis of the shares given up and the fair value of the shares and cash, if any, received in merger transactions.

Loss on extinguishment of debt totaled \$7.0 million in 2001 as a result of U.S. Cellular's retirement of 6% zero coupon convertible debentures also known as Liquid Yield Option Notes, with a carrying value of \$25.4 million.

Interest Expense increased 30% (\$39.2 million) to \$171.4 million in 2003 and increased 27% (\$28.5 million) to \$132.2 million in 2002 from \$103.7 million in 2001.

The increase in interest expense in 2003 was primarily due to amounts related to variable prepaid forward contracts ("forward contracts") (\$31.7 million), the issuance of 30-year 8.75% Senior Notes (\$9.6 million) by U.S. Cellular in 2002 and an increase in average short-term debt balances and related interest expense (\$4.0 million). The increase in interest expense in 2003 was offset by the retirement of 9% Series A Notes in December 2002 (\$4.6 million) and the \$70.5 million reduction in medium-term notes (\$2.5 million) in 2003.

The increase in interest expense in 2002 was primarily due to the issuance of \$500 million of 7.6% Series A Notes in December 2001 (\$34.8 million), interest on forward contracts (\$7.8 million) entered into in 2002, and the issuance of 30-year, 9% Series A Notes (\$4.6 million) and 30-year 8.75% Senior Notes (\$1.8 million) by U.S. Cellular in 2002. The increase in 2002 was offset somewhat by a decrease in average short-term debt balances and related interest expense (\$12.1 million), a \$116.5 million reduction in Medium-term notes (\$7.5 million), and a reduction in Liquid Yield Option Notes (\$0.9 million). See Note 15 – Long-term Debt and Note 16 – Financial Instruments and Derivatives, for an explanation of the forward contracts and other long-term debt instruments.

Minority Interest in Income of Subsidiary Trust decreased 33% (\$8.1 million) to \$16.7 million in 2003 and was \$24.8 million in 2002 and 2001. In September 2003, TDS redeemed all \$300 million of Company-Obligated Mandatorily Redeemable Preferred Securities at par plus accrued and unpaid distributions. There was no gain or loss on this transaction.

Other income (expense), net decreased \$14.4 million to \$(12.0) million in 2003 and decreased \$1.4 million to \$2.4 million in 2002 from \$3.8 million in 2001. The decrease in 2003 was primarily due to the write-off of \$9.0 million of deferred debt expenses related to the \$300 million of Company-Obligated Mandatorily Redeemable Preferred Securities and \$70.5 million of Medium-term Notes that were redeemed in 2003. TDS also incurred \$7.3 million of costs related to the prepaid forward contracts and a \$3.5 million loss related to derivative accounting on the VeriSign investment in 2003.

Income Tax Expense (Benefit) was an expense of \$50.4 million in 2003, a benefit of \$(577.0) million in 2002 and a benefit of \$(45.0) million in 2001. The tax benefit related to losses on marketable securities and other investments was \$1.6 million in 2003, \$720.5 million in 2002 and \$211.9 million in 2001. The effective tax expense (benefit) rate was 38.5% in 2003, (37.1)% in 2002 and (25.1)% in 2001. See Note 2 – Income Taxes for further discussion of the effective tax rate.

Minority Share of Income includes the minority public shareholders' share of U.S. Cellular's net income, the minority shareholders' or partners' share of certain U.S. Cellular subsidiaries' net income or loss and other TDS minority interests. U.S. Cellular's minority public shareholders' share of U.S. Cellular's net income was reduced by \$32.7 million in 2002 due to U.S. Cellular's \$183.3 million, net of tax, loss on marketable equity securities and other investments in 2002.

Year Ended December 31,	2003 (as restated)	2002	2001
(Dollars in thousands)			
Minority Share of Income			
U.S. Cellular			
Minority Public			
Shareholders' Interest	\$ (10,170)	\$ 3,277	\$(31,163)
Subsidiaries'			
Minority Interests	(10,070)	(12,281)	(8,591)
	(20,240)	(9,004)	(39,754)
Other Subsidiaries	(140)	(64)	(161)
	\$ (20,380)	\$ (9,068)	\$(39,915)

Discontinued Operations. TDS is party to an indemnity agreement with T-Mobile regarding certain contingent liabilities at Aerial Communications, Inc. ("Aerial") for the period prior to Aerial's merger into VoiceStream. During the third quarter of 2003 it was determined that the indemnity for certain contingent liabilities would be greater than previously provided. TDS took an additional charge of \$1.6 million (\$2.8 million, less income tax expense of \$1.2 million), or \$(0.03) per diluted share with respect to the additional liability.

The merger of Aerial with VoiceStream was completed on May 4, 2000. TDS recognized a gain of \$2,125.8 million, net of income tax expense, on this transaction, in 2000. The gain was

reduced by \$24.1 million, net of income tax expense, or \$(0.41) per diluted share, in 2001 to reflect adjustments to estimates used during the closing in the calculation of income and other tax liabilities.

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

Effective January 1, 2002, TDS adopted SFAS No. 142 and determined that wireless license costs have indefinite lives. Upon initial adoption, TDS reviewed its wireless license costs and determined there was an impairment loss on certain licenses. The cumulative effect of the initial impairment upon the adoption of SFAS No. 142 reduced net income in 2002 by \$10.4 million, net of taxes of \$8.2 million and minority interest of \$2.3 million, or \$(0.18) per diluted share.

Effective January 1, 2002, U.S. Cellular changed its method of accounting for commissions expenses related to customer activations and began deferring expense recognition of a portion of commissions expenses in the amount of activation fees revenue deferred. 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 taxes of \$3.0 million and minority interest of \$1.2 million, or \$0.06 per diluted share.

Net Income (Loss) Available to Common totaled \$46.2 million, or \$0.80 per diluted share, in 2003, compared to \$(995.2) million, or \$(16.97) per diluted share, in 2002, and \$(198.5) million, or \$(3.38) per diluted share, in 2001. Amounts in 2002 and 2001 were significantly affected by losses from marketable equity securities and other investments.

WIRELESS TELEPHONE OPERATIONS

TDS provides wireless telephone service through U.S. Cellular, an 82.1%-owned subsidiary. U.S. Cellular owns, manages and invests in wireless markets throughout the United States. Growth in the customer base is the primary reason for the change in U.S. Cellular's results of operations in 2003 and 2002. The number of customers increased 7% to 4,409,000 at December 31, 2003 and increased 19% to 4,103,000 at December 31, 2002 from 3,461,000 in 2001. In 2003, U.S. Cellular added 447,000 net new customers from its marketing efforts and transferred 141,000 customers in 10 markets in Florida and Georgia to AT&T Wireless in exchange for wireless licenses. U.S. Cellular added 310,000 net new customer units from its marketing efforts and 332,000 customers from acquisitions in 2002.

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

Following is a table of summarized operating data for U.S. Cellular's consolidated operations.

Year Ended or at December 31, ⁽¹⁾	2003	2002	2001
Consolidated Markets:			
Customers	4,409,000	4,103,000	3,461,000
Total market population ⁽²⁾	46,267,000	41,048,000	28,632,000
Market penetration ⁽³⁾	9.53%	10.00%	12.09%
Markets	147	149	142
Cell sites in service	4,184	3,914	2,925
Average monthly service revenue per customer ⁽⁴⁾	\$ 47.38	\$ 47.25	\$ 46.28
Post-pay churn rate per month ⁽⁵⁾	1.5%	1.8%	1.7%
Sales and marketing cost per gross customer addition ⁽⁶⁾	\$ 380	\$ 365	\$ 322
Employees	6,225	6,100	5,150

(1) Amounts in 2003 include the results of the 10 markets transferred to AT&T Wireless through July 31, and include the results of the 15 markets acquired and transferred from AT&T Wireless from the transfer date through December 31. Amounts in 2002 include the operations of USCOC of Chicago (as defined below) from August 7 – December 31.

(2) Represents 100% of the population of U.S. Cellular's consolidated markets, regardless of whether the market has begun marketing operations. Market penetration is calculated using 2002, 2001, and 2000 Claritas population estimates for 2003, 2002, and 2001, respectively.

(3) Market penetration is calculated by dividing customers by total market population.

(4) Average monthly service revenue per customer is calculated as follows:

Year Ended or at December 31,	2003	2002	2001
Service Revenue (000s)	\$2,423,789	\$2,098,893	\$1,826,385
Divided by average customers during period (000s)	4,263	3,702	3,289
Divided by twelve months in each period	12	12	12
Average monthly revenue per customer	\$ 47.38	\$ 47.25	\$ 46.28

(5) Post-pay churn rate per month represents the percentage of the customer base on post-pay service plans (i.e., service plans where customers are billed in arrears for service) which disconnects service each month. The calculation divides the total number of customers on post-pay service plans who disconnect service during the period by the number of months in such period, then divides that quotient by the average monthly post-pay service customer base for such period.

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

On August 1, 2003, U.S. Cellular completed the transfer of the wireless assets and customers in 10 markets in Florida and Georgia to AT&T Wireless. In exchange, U.S. Cellular received rights to acquire controlling interests in 36 personal communica-

tion service licenses and approximately \$34 million in cash and minority interests in six markets in which it previously owned a controlling interest. Of the 36 licenses, 15 were transferred to U.S. Cellular in 2003. The assignment and development of the remaining 21 licenses yet to be transferred from AT&T Wireless will be deferred by U.S. Cellular for a period of up to five years from the original closing date of August 1, 2003. U.S. Cellular will take possession of the licenses in staggered closings over that five-year period to comply with the service requirements of the Federal Communications Commission ("FCC"). The Florida and Georgia markets that were transferred to AT&T Wireless are included in consolidated operations for the first seven months of 2003.

On August 7, 2002, U.S. Cellular completed the acquisition of the assets and certain liabilities of Chicago 20MHz, LLC, now known as United States Cellular Operating Company of Chicago, LLC ("USCOC of Chicago" or the "Chicago market") from PrimeCo Wireless Communications LLC. USCOC of Chicago operates a wireless system in the Chicago major trading area. USCOC of Chicago is the holder of certain FCC licenses, including a 20 megahertz personal communication service license in the Chicago major trading area (excluding Kenosha County, Wisconsin). The Chicago market's operations are included in consolidated operations for the entire year of 2003, but only for the period from August 7 – December 31 of 2002. The Chicago market's operations contributed to the increases in U.S. Cellular's operating revenues and expenses in both 2003 and 2002.

Prior to the fourth quarter of 2003, U.S. Cellular included costs for equipment sold to retain current U.S. Cellular customers in selling, general and administrative expense. Prior to the fourth quarter of 2003 and in part of 2002, these costs were partially offset by equipment sales revenues received from these customers. In part of 2002 and all of 2001, equipment sales revenues related to retaining current customers were included in operating revenues. 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, for each of the years presented. These reclassifications increased operating revenues by \$27.3 million and \$13.1 million in 2003 and 2002, respectively, and increased cost of services and products by \$106.6 million, \$57.2 million and \$42.7 million in 2003, 2002 and 2001, respectively. Selling, general and administrative expense was reduced by \$79.3 million, \$44.1 million and \$42.7 million in 2003, 2002 and 2001, respectively, 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 any of the years presented.

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Operating Revenues

Year Ended December 31,	2003	2002	2001
(Dollars in thousands)			
Retail service	\$1,984,671	\$1,682,020	\$1,408,253
Inbound roaming	221,737	255,443	272,361
Long-distance and other	217,381	161,430	145,771
Service Revenues	2,423,789	2,098,893	1,826,385
Equipment sales	158,994	98,693	68,445
Total Operating Revenues	\$2,582,783	\$2,197,586	\$1,894,830

Operating revenues increased \$385.2 million, or 18%, to \$2,582.8 million in 2003 from \$2,197.6 million in 2002 and increased \$302.8 million, or 16%, in 2002 from \$1,894.8 million in 2001.

Service revenues increased \$324.9 million, or 15%, to \$2,423.8 million in 2003 from \$2,098.9 million in 2002 and increased \$272.5 million, or 15%, in 2002 from \$1,826.4 million in 2001. Service revenues primarily consist of: (i) charges for access, airtime, roaming and value-added services provided to U.S. Cellular's retail customers ("retail service"); (ii) charges to other wireless carriers whose customers use U.S. Cellular's wireless systems when roaming ("inbound roaming"); and (iii) charges for long-distance calls made on U.S. Cellular's systems. The increases in both years were primarily due to the growth in the number of retail customers in each year. Monthly service revenue per customer averaged \$47.38 in 2003, \$47.25 in 2002 and \$46.28 in 2001.

Retail service revenues increased \$302.7 million, or 18%, to \$1,984.7 million in 2003 from \$1,682.0 million in 2002 and increased \$273.7 million, or 19%, in 2002 from \$1,408.3 million in 2001. Growth in U.S. Cellular's average customer base of 15% and 13% in 2003 and 2002, respectively, and an increase in average monthly retail service revenue per customer were the primary reasons for the increases in retail service revenue in both years. The average number of customers is affected by the timing of acquisitions and divestitures in both years, including the acquisition of the Chicago market in August 2002 and the disposition of markets to AT&T Wireless in August 2003.

Management anticipates that growth in the customer base in U.S. Cellular's wireless markets will be slower in the future, primarily as a result of the increased competition in its markets and continued penetration of the consumer market. However, as U.S. Cellular expands its operations in Chicago and into its other recently acquired markets in future years, it anticipates adding customers and revenues in those markets, increasing its overall customer and revenue growth rates.

Average monthly retail service revenue per customer increased 2% to \$38.80 in 2003 from \$37.86 in 2002 and increased 6% in 2002 from \$35.68 in 2001. These increases were driven by an increase in average minutes of use per customer, the effect of which was partially offset by a decline in average revenue per minute of use.

Monthly local retail minutes of use per customer averaged 422 in 2003, 304 in 2002 and 216 in 2001. The increases in monthly local retail minutes of use in both years were driven by U.S. Cellular's focus on designing sales incentive programs and customer billing rate plans to stimulate overall usage, as well as the acquisition of the Chicago market in 2002, whose customers used more minutes per month than the U.S. Cellular average. The impact on retail service revenue of the increased minutes of use in both years was partially offset by a decrease in average revenue per minute of use. The decrease in average revenue per minute of use reflects the effects of increasing competition, which has led to the inclusion of an increasing number of minutes in package pricing plans. Management anticipates that U.S. Cellular's average revenue per minute of use will continue to decline in the future, reflecting increased competition and continued penetration of the consumer market.

Inbound roaming revenues decreased \$33.7 million, or 13%, to \$221.7 million in 2003 from \$255.4 million in 2002 and decreased \$16.9 million, or 6%, from \$272.3 million in 2001. The decreases in revenue related to inbound roaming on U.S. Cellular's systems in both years primarily resulted from a decrease in revenue per roaming minute of use, partially offset by an increase in roaming minutes used. Also contributing to the decrease in 2003 was the transfer of the Florida and Georgia markets to AT&T Wireless in August 2003; these markets had historically provided substantial amounts of inbound roaming revenue. The increases in inbound roaming minutes of use in both years were primarily driven by the overall growth in the number of customers throughout the wireless industry. The declines in revenue per minute of use in both years were primarily due to the general downward trend in negotiated rates.

Management anticipates that the future rate of growth in inbound roaming minutes of use will be reduced due to three factors:

- newer customers may roam less than existing customers, reflecting further penetration of the consumer market;
- the divestiture of U.S. Cellular's markets in Florida and Georgia in August 2003 and in southern Texas in February 2004, which have historically provided substantial inbound roaming minutes of use; and
- U.S. Cellular's roaming partners may switch their business from U.S. Cellular to other operators or to their own systems.

Management also anticipates that average inbound roaming revenue per minute of use will continue to decline, reflecting the continued general downward trend in negotiated rates.

Long-distance and other revenues increased \$55.9 million, or 35%, to \$217.4 million in 2003 from \$161.5 million in 2002 and increased \$15.7 million, or 11%, in 2002 from \$145.8 million in 2001. The increase in 2003 is primarily related to the \$47.2 million increase in amounts billed to U.S. Cellular's customers to offset costs related to certain regulatory mandates, such as universal service funding, wireless number portability and E-911 infrastructure. In particular, the amounts U.S. Cellular charges to its customers to offset universal service funding costs increased significantly due to changes in FCC regulations beginning April 1, 2003.

The remainder of the increases in long-distance and other revenue in both years were driven by an increase in the volume of long-distance calls billed by U.S. Cellular to other wireless carriers whose customers used U.S. Cellular's systems to make long-distance calls. This effect was partially offset in both years by price reductions primarily related to long-distance charges on roaming minutes of use as well as U.S. Cellular's increasing use of pricing plans for its customers which include long-distance calling at no additional charge.

Equipment sales revenues increased \$60.3 million, or 61%, to \$159.0 million in 2003 from \$98.7 million in 2002 and increased \$30.3 million, or 44%, in 2002 from \$68.4 million in 2001. The increases in equipment sales revenues in both years primarily reflect a change in U.S. Cellular's method of distributing handsets to its agent channel. Beginning in the second quarter of 2002, U.S. Cellular began selling handsets to its agents at a price approximately equal to U.S. Cellular's cost before applying any rebates. Previously, U.S. Cellular's agents purchased handsets from third parties. Selling handsets to agents enables U.S. Cellular to provide better control over handset quality, to set roaming preferences and to pass along quantity discounts. Management anticipates that U.S. Cellular will continue to sell handsets to agents in the future, and that it will continue to provide rebates to agents who sell handsets to new and current customers.

In these transactions with agents, equipment sales revenue is recognized upon delivery of the related products to the agents, net of any anticipated agent rebates. In most cases, the agents receive a rebate from U.S. Cellular at the time the agents provide handsets to sign up new customers or retain current customers.

Handset sales to agents, net of all rebates, increased equipment sales revenues by \$52.7 million in 2003 and \$20.8 million in 2002. Equipment sales to customers through U.S. Cellular's non-agent channels increased \$7.6 million, or 10%, to \$85.5 million in 2003 from \$77.9 million in 2002 and increased \$9.5 million, or 14%, in 2002 from \$68.4 million in 2001. Customers added to U.S. Cellular's customer base through its marketing distribution channels ("gross customer activations"), the primary driver of equipment sales revenues, increased 9% in 2003 and 14% in 2002. Gross customer activations from non-agent channels increased 5% in 2003 and 8% in 2002. The increases in gross customer activations from non-agent channels in both years were driven by an increase in store traffic in U.S. Cellular's markets and the acquisition of the Chicago market in August 2002, which added to U.S. Cellular's distribution network.

The increases in equipment sales revenues from U.S. Cellular's non-agent channels in both years were primarily attributable to the increase in handsets sold to customers for retention purposes, as U.S. Cellular continued to focus on retaining customers by offering existing customers handset pricing similar to that offered to new customers, particularly as these customers near the expiration date of their service contracts. This impact was partially offset by lower revenue per handset in both years, reflecting the reduction in sales prices to end users as a result of increased competition.

Operating Expenses

Year Ended December 31,	2003 (as restated)	2002	2001
(Dollars in thousands)			
System operations (excluding depreciation shown below)	\$ 576,159	\$ 492,750	\$ 421,114
Cost of equipment sold	355,150	242,523	166,759
Selling, general and administrative	1,004,655	829,993	689,087
Depreciation	374,769	311,993	237,346
Amortization and accretion	57,564	39,161	63,312
Loss on impairment of intangible assets	49,595	—	—
Loss on assets held for sale	45,908	—	—
Total Operating Expenses	\$2,463,800	\$1,916,420	\$1,577,618

Operating expenses increased \$547.4 million, or 29%, to \$2,463.8 million in 2003 from \$1,916.4 million in 2002 and increased \$338.8 million, or 21%, in 2002 from \$1,577.6 million in 2001.

System operations expenses (excluding depreciation) increased \$83.4 million, or 17%, to \$576.2 million in 2003 from \$492.8 million in 2002 and increased \$71.7 million, or 17%, in 2002 from \$421.1 million in 2001. System operations expenses include charges from landline telecommunications service providers for U.S. Cellular's customers' use of their facilities, costs related to local interconnection to the landline network, charges for maintenance of U.S. Cellular's network, long-distance charges and outbound roaming expenses. The increases in system operations expenses in both years were due to the following factors:

- 7% and 34% increases, respectively, in the number of cell sites within U.S. Cellular's systems, to 4,184 in 2003 from 3,914 in 2002 and from 2,925 in 2001, as U.S. Cellular continues to expand and enhance coverage in its service areas both through acquisitions and internal growth; and
- increases in minutes of use both on U.S. Cellular's systems and by U.S. Cellular's customers using other systems while roaming.

The ongoing reductions both in the per-minute cost of usage on U.S. Cellular's systems and in negotiated roaming rates partially offset the above factors.

As a result of the above factors, the components of system operations expenses were affected as follows:

- the cost of minutes used on U.S. Cellular's systems increased \$46.5 million, or 38%, in 2003 and \$33.9 million, or 38%, in 2002;
- maintenance, utility and cell site expenses increased \$40.3 million, or 31%, in 2003 and \$28.1 million, or 27%, in 2002, as the average number of cell sites in service increased 17% and 30% in 2003 and 2002, respectively; also in markets where U.S. Cellular maintains two digital radio equipment technologies, the related costs increased on a per cell site basis as well; and

- expenses incurred when U.S. Cellular's customers used other systems when roaming decreased \$3.4 million, or 1%, in 2003 and increased \$9.6 million, or 4%, in 2002.

System operations expenses increased in both years due to the August 2002 acquisition of the Chicago market, as a full year of activity in the Chicago market is included in 2003 compared to only the period from August 7 – December 31 in 2002. The increases in expenses in the Chicago market in both periods were partially offset by reductions in expenses in other markets, primarily in the Midwest, when certain customers in surrounding markets used the Chicago system. Prior to acquiring the Chicago market, U.S. Cellular paid roaming charges to third parties when any of its customers roamed in the Chicago market.

Monthly systems operations expenses per customer increased 2% to \$11.26 in 2003 and increased 4% to \$11.09 in 2002 from \$10.67 in 2001. This measurement is calculated by dividing total system operations expenses as reported for each of the annual periods by 12, then dividing that quotient by average customers during each respective 12-month period as defined in footnote 4 to the table of summarized operating data shown at the beginning of the Wireless Telephone Operations section. Management uses this measurement to assess the cost of customer usage and network usage and maintenance on a per unit basis.

In total, management expects system operations expenses to increase over the next few years, driven by the following factors:

- increases in the number of cell sites within U.S. Cellular's systems as it continues to add capacity and enhance quality in all markets, and begins development activities in new markets; and
- increases in minutes of use, both on U.S. Cellular's systems and by U.S. Cellular's customers on other systems when roaming.

These factors are expected to be partially offset by anticipated decreases in the per-minute cost of usage both on U.S. Cellular's systems and on other carriers' networks. The Chicago area has historically been a high-volume roaming destination for U.S. Cellular's customers. Management anticipates that the continued integration of the Chicago market into its operations will result in a further increase in minutes of use by U.S. Cellular's customers on its systems and a corresponding decrease in minutes of use by its customers on other systems, resulting in a lower overall increase in minutes of use by U.S. Cellular's customers on other systems. Such a shift in minutes of use would reduce U.S. Cellular's per-minute cost of usage in the future, to the extent that U.S. Cellular's customers use U.S. Cellular's systems rather than other carriers' networks. Additionally, U.S. Cellular's acquisition and subsequent buildout of licensed areas received in the AT&T Wireless exchange transaction may shift more minutes of use to U.S. Cellular's systems, as many of these licensed areas are major roaming destinations for U.S. Cellular's current customers.

Cost of equipment sold increased \$112.7 million, or 46%, to \$355.2 million in 2003 from \$242.5 million in 2002 and increased \$75.7 million, or 45%, in 2002 from \$166.8 million in 2001. The

increases in both years are primarily due to the \$80.7 million and \$56.1 million increases, respectively, in handset costs related to the sale of handsets to agents beginning in the second quarter of 2002. Cost of equipment sold from non-agent channels increased \$31.9 million, or 17%, in 2003 and increased \$19.7 million, or 12%, in 2002. The increase in cost of equipment sold from non-agent channels in both years primarily reflects the increase in handsets sold to customers for retention purposes, as U.S. Cellular continued to focus on retaining customers by offering existing customers handset pricing similar to that offered to new customers as the expiration date of customers' service contracts approached. Also contributing were the respective 5% and 8% increases in gross customer activations from non-agent channels in 2003 and 2002.

Selling, general and administrative expenses increased \$174.7 million, or 21%, to \$1,004.7 million in 2003 from \$830.0 million in 2002 and increased \$140.9 million, or 20%, in 2002 from \$689.1 million in 2001. Selling, general and administrative expenses primarily consist of salaries, commissions and expenses of field sales and retail personnel and offices; agent commissions and related expenses; corporate marketing, merchandise management and tele-sales department salaries and expenses; advertising; and public relations expenses. Selling, general and administrative expenses also include the costs of operating U.S. Cellular's customer care centers, the costs of serving customers and the majority of U.S. Cellular's corporate expenses.

The increase in selling, general and administrative expenses in 2003 is primarily due to the following factors:

- a \$38.4 million increase in advertising costs, primarily related to the continued marketing of the U.S. Cellular brand in the Chicago market and the marketing of U.S. Cellular's data-related wireless services;
- a \$30.1 million increase in expenses related to payments into the federal universal service fund, based on an increase in rates due to changes in the FCC regulations, substantially all of which is offset by increases in long-distance and other revenue for amounts passed through to customers; and
- a \$29.3 million increase in billing-related expenses, primarily due to the expenses related to the maintenance of the Chicago market's billing system and the transition to the system used in U.S. Cellular's other operations in July 2003.

In 2002, the increase in selling, general and administrative expenses was primarily due to the following factors:

- a \$40.0 million increase in general and administrative expenses due to the acquisition and operation of the Chicago market;
- a \$35.0 million increase in bad debt expense; and
- a \$25.7 million increase in advertising costs, primarily related to the launch of the U.S. Cellular brand in the Chicago market.

In both years, increases were also attributable to the rise in salaries and other employee-related expenses associated with acquiring, serving and retaining customers, primarily as a result of the

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acquisition of the Chicago market as well as the increase in U.S. Cellular's customer base.

In 2003, the increase in salaries and other sales-related costs is also attributable to the expenses incurred in preparation for U.S. Cellular's launch of data-related wireless services in its markets. In 2002, the increase was also related to enhancements made to U.S. Cellular's merchandise management and telesales processes and the development of data services strategies.

In 2002, U.S. Cellular changed its accounting for commissions expenses, reflecting a change in its application of Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements." Effective January 1, 2002, U.S. Cellular began deferring expense recognition of a portion of its commissions expenses, equal to the amount of deferred activation fees revenue. U.S. Cellular recognizes the related commissions expense over the average customer service period, currently estimated to be 48 months. This change resulted in a reduction in selling, general and administrative expenses of \$2.8 million in 2002. Pursuant to this change, beginning in 2002 equivalent amounts of revenue and expense are deferred and amortized, which results in better matching for purposes of reporting operating income, net income and diluted earnings per share. See "Cumulative Effect of a Change in Accounting Principle" for more information on the impact of SAB No. 101 on TDS's results.

Sales and marketing cost per gross customer activation totaled \$380 in 2003, \$365 in 2002 and \$322 in 2001. Sales and marketing cost per gross customer activation is not calculable using financial information derived directly from the statements of operations. The definition of sales and marketing cost per gross customer activation that U.S. Cellular uses as a measure of the cost to acquire additional customers through its marketing distribution channels may not be comparable to similarly titled measures that are reported by other companies. Below is a summary of sales and marketing cost per gross customer activation for each period.

Year Ended December 31,	2003	2002	2001
(Dollars in thousands, except per customer amounts)			
Components of cost			
Selling, general and administrative expenses related to the acquisition of new customers ⁽¹⁾	\$ 428,944	\$ 368,888	\$ 297,239
Cost of equipment sold to new customers ⁽²⁾	248,539	185,283	124,028
Less equipment sales revenue from new customers ⁽³⁾	(162,402)	(100,164)	(68,445)
Total costs	\$ 515,081	\$ 454,007	\$ 352,822
Gross customer activations (000s) ⁽⁴⁾	1,357	1,244	1,095
Sales and marketing cost per gross customer activation	\$ 380	\$ 365	\$ 322

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

Year Ended December 31,	2003	2002	2001
(Dollars in thousands)			
Selling, general and administrative expenses as reported	\$1,004,655	\$829,993	\$689,087
Less expenses related to serving and retaining customers	(575,711)	(461,105)	(391,848)
Selling, general and administrative expenses related to the acquisition of new customers	\$ 428,944	\$368,888	\$297,239

(2) Cost of equipment sold, excluding amounts related to the retention of existing customers is reconciled to total cost of equipment sold as follows:

Year Ended December 31,	2003	2002	2001
(Dollars in thousands)			
Cost of equipment sold as reported	\$ 355,150	\$242,523	\$166,759
Less cost of equipment sold related to the retention of existing customers	(106,611)	(57,240)	(42,731)
Cost of equipment sold to new customers	\$ 248,539	\$185,283	\$124,028

(3) Equipment sales revenues, excluding amounts related to the retention of existing customers is reconciled to total equipment sales revenues as follows:

Year Ended December 31,	2003	2002	2001
(Dollars in thousands)			
Equipment sales revenues as reported	\$ 158,994	\$ 98,693	\$ 68,445
Less equipment sales revenues related to the retention of existing customers, excluding agent rebates*	(27,328)	(13,108)	—
Add agent rebate reductions of equipment sales revenues related to the retention of existing customers	30,736	14,579	—
Equipment sales revenues from new customers	\$ 162,402	\$100,164	\$ 68,445

* In part of 2002 and all of 2001, equipment sales revenues related to retaining current customers were included in equipment sales revenues. In 2003 and part of 2002, these revenues were recorded in selling, general and administrative expenses as a reduction of the cost of equipment sold to retain current customers. In order to conform the operating results for 2003 and part of 2002 for which these revenues were recorded in selling, general and administrative expenses to the current period presentation, U.S. Cellular reclassified the revenues related to retaining current customers in these periods as equipment sales revenues.

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

Monthly general and administrative expenses per customer, including the net costs related to the renewal or upgrade of service contracts of existing customers ("net customer retention costs"), increased 15% to \$13.40 in 2003 and increased 6% to \$11.70 in 2002 from \$11.01 in 2001. Management uses this measurement to assess the cost of serving and retaining its customers on a per unit basis.

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

Year ended December 31,	2003	2002	2001
(Dollars in thousands, except per customer amounts)			
Components of cost ⁽¹⁾			
Selling, general and administrative expenses as reported	\$1,004,655	\$ 829,993	\$ 689,087
Less selling, general and administrative expenses related to the acquisition of new customers	(428,944)	(368,888)	(297,239)
Add cost of equipment sold related to the retention of existing customers	106,611	57,240	42,731
Less equipment sales revenues related to the retention of existing customers, excluding agent rebates	(27,328)	(13,108)	—
Add agent rebate reductions of equipment sales revenues related to the retention of existing customers	30,736	14,579	—
Net cost of serving and retaining customers	\$ 685,730	\$ 519,816	\$ 434,579
Divided by average customers during period (000s) ⁽²⁾	4,263	3,702	3,289
Divided by twelve months in each period	12	12	12
Average monthly general and administrative expenses per customer	\$ 13.40	\$ 11.70	\$ 11.01

(1) These components were previously identified in the table which calculates sales and marketing cost per customer activation and related footnotes shown on page 30.

(2) Average customers for each respective period were previously defined in footnote 4 to the table of summarized operating data shown on page 26.

Depreciation expense increased \$62.8 million, or 20%, to \$374.8 million in 2003 from \$312.0 million in 2002 and increased \$74.7 million, or 31%, in 2002, from \$237.3 million in 2001. The increases in both years reflect rising average fixed asset balances, which increased 23% in 2003 and 31% in 2002. Increased fixed asset balances in both 2003 and 2002 resulted from the following factors:

- the addition of 507 and 437 new cell sites in 2003 and 2002, respectively, built to improve coverage and capacity in U.S. Cellular's markets;
- the acquisition of the Chicago market in 2002;
- U.S. Cellular's migration of its network toward a single digital equipment platform, which began during the second half of 2002;

- the addition of digital radio channels to U.S. Cellular's network to accommodate increased usage; and
- investments in U.S. Cellular's billing and office systems.

See Liquidity and Capital Resources – Capital Expenditures for further discussion of U.S. Cellular's capital expenditures.

In addition to the above factors, in 2003, U.S. Cellular took certain cell sites, in which its antennae were co-located on third parties' towers, out of service, writing off the remaining net book value of the related assets. This write-off increased depreciation expense by \$7.0 million in 2003. These cell sites were acquired from another carrier in a 2001 transaction. U.S. Cellular recorded \$11.6 million less depreciation expense in 2003 than in 2002 as depreciation on the properties transferred to AT&T Wireless in the exchange transaction was only recorded through March 2003 in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets."

In 2002, depreciation expense increased \$15.0 million due to a charge to reflect the write-off of certain analog equipment based on fixed asset inventory reviews performed in 2002.

Amortization and accretion expense increased \$18.4 million, or 47%, to \$57.6 million in 2003 from \$39.2 million in 2002 and decreased \$24.2 million, or 38%, in 2002 from \$63.4 million in 2001. The increase in 2003 is primarily driven by the \$11.1 million increase in amortization related to the customer list intangible assets and other deferred charges acquired in the Chicago market transaction during 2002. The customer list assets are amortized based on the average customer retention periods related to each customer list.

In accordance with SFAS No. 143 "Accounting for Asset Retirement Obligations," as of January 1, 2003, U.S. Cellular began accreting liabilities for future remediation obligations associated with leased properties. Such accretion expense totaled \$4.4 million in 2003.

In accordance with SFAS No. 142 "Goodwill and Other Intangible Assets," effective January 1, 2002, U.S. Cellular no longer amortizes previously recorded goodwill and intangible assets with indefinite lives. These assets will be subject to periodic impairment tests, which will be conducted annually or more often if necessary. In 2001, amortization of these intangibles totaled \$36.5 million.

Loss on impairment of intangible assets totaled \$49.6 million in 2003. In conjunction with the restatement related to SFAS No. 142, the annual impairment test was reperformed for wireless license costs for 2003, which was originally performed during the second quarter of 2003. The carrying value of the wireless license costs in each reporting unit was compared to the estimated fair value of the wireless license costs in each reporting unit. The license values in two reporting units were determined to be impaired and a loss of \$49.6 million was recorded. See "Application of Critical Accounting Policies and Estimates – Investments in Licenses and Goodwill" for further discussion of TDS's and U.S. Cellular's intangible asset impairment testing.

Loss on assets held for sale totaled \$45.9 million in 2003. Of this total, \$23.9 million represents the difference between the fair value of the licenses U.S. Cellular received and expects to receive in the AT&T Wireless exchange transaction completed on August 1, 2003, as determined by an independent valuation, and the recorded value of the Florida and Georgia market assets it transferred to AT&T Wireless. The loss also includes a \$22.0 million write-down related to the wireless assets to be sold to AT&T Wireless in February 2004.

Operating Income

Operating income decreased \$162.2 million, or 58%, to \$119.0 million in 2003 from \$281.2 million in 2002 and decreased \$36.0 million, or 11%, in 2002 from \$317.2 million in 2001. The operating income margins (as a percent of service revenues) were 4.9% in 2003, 13.4% in 2002 and 17.4% in 2001.

The declines in operating income and operating income margin in both years reflect the following:

- increased selling, general and administrative expenses, primarily driven by the acquisition and subsequent transition of the Chicago market's operations and billing system; and additional costs related to advertising and marketing the U.S. Cellular brand, especially in the Chicago market, and related to the launch of U.S. Cellular's data-related wireless services in certain markets;
- increased depreciation expense, driven by an increase in average fixed assets related to ongoing improvements to and the expansion of U.S. Cellular's wireless network;
- increased system operations expenses, primarily driven by increases in the number of cell sites and increases in the number of minutes used by U.S. Cellular's customers and roaming customers on U.S. Cellular's network; and
- increased equipment subsidies, primarily due to U.S. Cellular's practice of selling handsets to agents; this practice began in 2002 and increased the volume of handset sales, as well as the increase in customer retention-related equipment transactions.

Operating income and operating income margin in 2003 also reflect:

- the losses on assets held for sale related to both the exchange transaction and pending sale transaction involving AT&T Wireless; and
- the loss on impairment of intangible assets.

These expense increases were partially offset by increased service revenues, which were driven by growth in the number of customers served by U.S. Cellular's systems and increases in average monthly revenue per customer.

U.S. Cellular expects most of the above factors, except for those related to the transition of the Chicago market and the losses on assets held for sale and impairments, to continue to have an effect on operating income and operating margins for the next several quarters. Any changes in the above factors, as well as the effects

of other drivers of U.S. Cellular's operating results, may cause operating income and operating margins to fluctuate over the next several quarters.

Related to U.S. Cellular's acquisition and subsequent transition of the Chicago market's operations, U.S. Cellular plans to incur additional expenses in 2004 as it competes in the Chicago market. Additionally, U.S. Cellular plans to build out its network into other as yet unserved portions of its licensed areas, and will begin sales and marketing operations in those areas in the next few years. U.S. Cellular also incurred additional expenses related to its launch of data-related wireless services in many of its markets in 2003, and expects to incur expenses related to its continued marketing of data-related wireless services in the next few years. As a result, depending on the timing and effectiveness of these initiatives, U.S. Cellular's operating income may range from \$160 million to \$210 million in 2004, compared to operating income of \$119 million in 2003. Its corresponding operating margins may range from 6% to 8% in 2004, compared to an operating margin of 4.9% in 2003.

U.S. Cellular anticipates that service revenues will total approximately \$2.5 billion in 2004, compared to service revenues of \$2.4 billion in 2003. The anticipated service revenue growth in 2004 reflects the effects of the sale of properties to AT&T Wireless in February 2004, the markets transferred to AT&T Wireless in the exchange transaction completed in August 2003, the continued growth in U.S. Cellular's customer base and the continued marketing of data-related wireless services in its markets.

Depending on the timing and effectiveness of its marketing efforts in new markets, U.S. Cellular anticipates that its customer base will grow 7% to 8% in 2004, substantially all from net customer additions gained through its marketing channels. However, management anticipates that average monthly service revenue per customer will decrease slightly, as retail service revenue per minute of use and inbound roaming revenue per minute of use decline.

Depending on the timing and effectiveness of its marketing efforts in new markets, U.S. Cellular anticipates that its operating expenses will increase by a range of 3% to 5% during 2004. U.S. Cellular does not anticipate recording a significant adjustment to the loss on assets held for sale in 2004 related to the sale of properties to AT&T Wireless in February 2004. U.S. Cellular anticipates that its net costs associated with customer growth, service and retention, initiation of new services, launches in new markets and fixed asset additions will continue to grow, causing overall expenses to increase compared to 2003.

U.S. Cellular anticipates that its net customer retention costs will increase in the future as it migrates to a single digital technology platform and certain customers will require new handsets. In addition, continued competitive pressures and an increase in per unit handset costs will require U.S. Cellular to incur increased net customer retention costs.

Management believes there exists a seasonality in both service revenues, which tend to increase more slowly in the first and fourth quarters due to variations in customer usage patterns in those periods, and operating expenses, which tend to be higher in the fourth quarter due to increased marketing activities and customer growth, which may cause operating income to vary from quarter to quarter. Management anticipates that the impact of such seasonality may decrease in the future, particularly as it relates to operating expenses, as the proportion of full year customer activations derived from fourth quarter holiday sales is expected to decline to reflect ongoing, rather than seasonal, promotions of U.S. Cellular's products.

Effects of Competition on Operating Income

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

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

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

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

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

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

Effects of Wireless Number Portability on Operating Income

The FCC mandate requiring that all wireless carriers be capable of facilitating wireless number portability became effective on November 24, 2003. At that time, all wireless providers in the largest 100 metropolitan statistical areas in the United States allowed a customer to retain, subject to certain geographical limitations, their existing telephone number when switching from one telecommunications carrier to another. For metropolitan statistical areas outside the largest 100, wireless providers that receive a request to allow an end user to port their number must be capable of doing so within six months of receiving the request or within six months after November 24, 2003, whichever is later.

U.S. Cellular has been successful in facilitating number portability requests in a timely manner. The implementation of wireless number portability has not had a material effect on U.S. Cellular's results of operations to date. However, U.S. Cellular is unable to predict the impact that the implementation of number portability will have on its overall business. The implementation of wireless number portability will likely increase churn rates for U.S. Cellular and other wireless companies, as the ability of customers to retain their wireless telephone numbers removes a significant barrier for customers who wish to change wireless carriers. U.S. Cellular believes that it may be able to obtain additional new customers that wish to change their service from other wireless carriers as a result of wireless number portability. The future volume of any porting requests, and the processing costs related thereto, may increase U.S. Cellular's operating costs in the future. Any of the above factors could have an adverse effect on U.S. Cellular's competitive position, costs of obtaining new subscribers, liquidity, financial position and results of operations.

WIRELINE TELEPHONE OPERATIONS

TDS operates its wireline telephone operations through TDS Telecommunications Corporation ("TDS Telecom"), a wholly-owned subsidiary. TDS Telecom served 1,087,000 equivalent access lines at the end of 2003, an increase of 84,400 lines over 2002. At the end of 2002, TDS Telecom served 1,002,600 equivalent access lines, an increase of 132,200 equivalent access lines over

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2001. TDS Telecom provides service through incumbent local exchange carriers and through competitive local exchange carriers. Equivalent access lines are derived by converting each high capacity data line to the estimated equivalent number, in terms of capacity, of switched access lines.

TDS Telecom's incumbent local exchange carriers served 722,200 equivalent access lines at the end of 2003 compared to 711,200 at the end of 2002 and 678,300 at the end of 2001. The incumbent local exchange carrier operations have grown through internal growth and acquisitions. Internal growth added 11,000 lines in 2003, 5,900 lines in 2002 and 13,800 lines in 2001. Acquisitions added 27,000 lines in 2002 and 44,900 in 2001.

TDS Telecom's competitive local exchange carriers served 364,800 equivalent access lines at the end of 2003 compared to 291,400 lines at the end of 2002 and 192,100 lines at the end of 2001. Internal growth in equivalent access lines has occurred as competitive local exchange carrier operations have increased their presence in current markets.

TDS Telecom Operating Income

Year Ended December 31,	2003	2002	2001
(Dollars in thousands)			
Incumbent Local Exchange Carrier Operations			
Operating Revenues	\$652,782	\$626,787	\$576,817
Operating Expenses	477,900	458,873	414,901
Operating Income	174,882	167,914	161,916
Competitive Local Exchange Carrier Operations			
Operating Revenues	213,501	176,602	118,812
Operating Expenses	239,478	239,327	161,785
Operating (Loss)	(25,977)	(62,725)	(42,973)
Intra-company Elimination			
Revenue	(3,850)	(2,501)	(1,917)
Expense	(3,850)	(2,501)	(1,917)
TDS Telecom Operating Income	\$148,905	\$105,189	\$118,943

TDS Telecom's operating income increased 42% (\$43.7 million) to \$148.9 million in 2003 primarily from improved results from the competitive local exchange business. TDS Telecom's operating income decreased 12% (\$13.8 million) to \$105.2 million in 2002 from \$119.0 million in 2001 primarily due to increased incumbent local exchange carrier and competitive local exchange carrier bad debts and increased operating expenses from expanding the competitive local exchange carrier business.

For 2004, TDS Telecom expects modest revenue growth with revenues from the incumbent local exchange carrier operations in the range of \$640 million to \$650 million and revenues from the com-

petitive local exchange carrier operations in the range of \$250 million to \$260 million. Operating income from the incumbent local exchange carrier is anticipated to range from \$170 million to \$180 million while competitive local exchange carrier operating losses are anticipated to range from \$(30) million to \$(20) million.

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

Year Ended December 31,	2003	2002	2001
ILEC equivalent access lines	722,200	711,200	678,300
Growth in ILEC equivalent access lines:			
Acquisitions	—	27,000	44,900
Internal growth	11,000	5,900	13,800
ILEC average monthly revenue per equivalent access line ⁽¹⁾	\$ 75.81	\$ 74.71	\$ 74.96
CLEC equivalent access lines	364,800	291,400	192,100
CLEC average monthly revenue per equivalent access line ⁽²⁾	\$ 54.66	\$ 60.13	\$ 67.89
TDS Telecom employees	3,460	3,570	3,410

(1) ILEC average monthly service per equivalent access line is calculated as follows:

Year Ended or at December 31,	2003	2002	2001
Total ILEC revenue per statement of operations (000s)	\$652,782	\$626,787	\$576,817
Divided by average ILEC equivalent access lines during period (000s)	717.6	699.1	641.2
Divided by twelve months in each year	12	12	12
ILEC average monthly revenue per equivalent access line	\$ 75.81	\$ 74.71	\$ 74.96

(2) CLEC average monthly revenue per equivalent access line is calculated as follows:

Year Ended or at December 31,	2003	2002	2001
Total CLEC revenue per statement of operations (000s)	\$213,501	\$176,602	\$118,812
Divided by average CLEC equivalent access lines during period (000s)	325.5	244.7	145.8
Divided by twelve months in each year	12	12	12
CLEC average monthly revenue per equivalent access line	\$ 54.66	\$ 60.13	\$ 67.89

Incumbent Local Exchange Carrier Operations

Operating Revenues

Year Ended December 31,	2003	2002	2001
(Dollars in thousands)			
Local Service	\$199,552	\$192,511	\$179,529
Network access and long-distance	362,917	346,597	319,410
Miscellaneous	90,313	87,679	77,878
Total Incumbent Local Exchange Revenues	\$652,782	\$626,787	\$576,817

Operating revenues increased 4% (\$26.0 million) to \$652.8 million in 2003 and increased 9% (\$50.0 million) to \$626.8 million in 2002 from \$576.8 million in 2001. Average monthly revenue per incumbent local exchange equivalent access line was \$75.81 in 2003, \$74.71 in 2002 and \$74.96 in 2001.

Local service revenues (provision of local telephone exchange service within the franchise serving area of TDS Telecom's incumbent local exchange carriers) increased 4% (\$7.1 million) to \$199.6 million in 2003 and increased 7% (\$13.0 million) to \$192.5 million in 2002 from \$179.5 million in 2001. Average monthly local service revenue per equivalent access line was \$23.17 in 2003, \$22.95 in 2002 and \$23.33 in 2001. Equivalent access line growth, excluding acquisitions, resulted in increases in revenues of \$3.0 million and \$1.4 million in 2003 and 2002, respectively. Acquisitions increased revenues by \$2.1 million, and \$10.6 million in 2003 and 2002, respectively. The sale of custom calling and advanced features increased revenues by \$2.9 million in 2003 and \$2.1 million in 2002.

Network access and long-distance revenues (compensation for carrying interstate and intrastate long-distance traffic on TDS Telecom's local telephone networks and reselling long-distance service) increased 5% (\$16.3 million) to \$362.9 million in 2003 and increased 9% (\$27.2 million) to \$346.6 million in 2002 from \$319.4 million in 2001. Average monthly network access and long-distance revenue per equivalent access line was \$42.15 in 2003, \$41.31 in 2002 and \$41.51 in 2001. Acquisitions increased revenues by \$5.2 million in 2003 and \$17.2 million in 2002. Long-distance service revenues increased by \$3.6 million in 2003 and \$11.4 million in 2002. Revenue generated from increased network usage increased \$5.0 million in 2003 and \$1.6 million in 2002. Compensation from state and national revenue pools for recovery of the expense of providing network access increased \$0.2 million in 2003 and decreased \$3.5 million in 2002.

Miscellaneous revenues (charges for (i) leasing, selling, installing and maintaining customer premise equipment, (ii) providing billing and collection services, (iii) providing Internet services and (iv) selling of digital broadcast satellite receivers) increased 3% (\$2.6 million) to \$90.3 million in 2003 and increased 13% (\$9.8 million) to

\$87.7 million in 2002 from \$77.9 million in 2001. Acquisitions increased revenues by \$1.4 million in 2003 and \$9.6 million in 2002. Revenue from data transmission services including Internet service and digital subscriber line services increased \$3.8 million in 2003 and \$7.8 million in 2002. Billing and collection revenues increased by \$0.7 million in 2003 and declined \$6.3 million in 2002. Revenue from computer networking services declined \$5.1 million in 2003 due to the migration of this service into other product lines.

Operating Expenses

Year Ended December 31,	2003	2002	2001
(Dollars in thousands)			
Cost of services and products (exclusive of depreciation and amortization included below)	\$167,342	\$142,618	\$119,455
Selling, general and administrative expense	180,171	186,023	163,659
Depreciation and amortization	130,036	130,232	131,787
Loss on asset impairments	351	—	—
Total Incumbent Local Exchange Expenses	\$477,900	\$458,873	\$414,901

Operating expenses increased 4% (\$19.0 million) to \$477.9 million in 2003 and increased 11% (\$44.0 million) to \$458.9 million in 2002 from \$414.9 million in 2001. Expenses in 2003 included \$7.7 million related to an early retirement incentive plan offered to employees eligible for retirement. Incumbent local exchange carrier expenses as a percent of revenues were 73.2% in 2003, 73.2% in 2002 and 71.9% in 2001.

Cost of services and products increased 17% (\$24.7 million) to \$167.3 million in 2003 and increased 19% (\$23.1 million) to \$142.6 million in 2002 from \$119.5 million in 2001. The cost of providing Internet service, digital subscriber line service and long-distance service to an increased customer base increased expenses by \$7.3 million in 2003 and \$13.5 million in 2002. Cost of goods sold related to digital subscriber line service and business systems increased \$3.4 million in 2003. Access costs increased by \$3.7 million in 2003. Local telephone company payroll increased \$5.9 million in 2003 and \$1.3 million in 2002 with the majority of the 2003 increase related to costs associated with an early retirement plan. Acquisitions increased expenses by \$2.9 million and \$8.3 million in 2003 and 2002, respectively.

Selling, general and administrative expenses decreased 3% (\$5.9 million) to \$180.2 million in 2003 and increased 14% (\$22.3 million) to \$186.0 million in 2002 from \$163.7 million in 2001. Acquisitions increased expenses by \$2.7 million in 2003

and by \$14.6 million in 2002. Bad debt expense recorded in 2002 included \$7.8 million related to the write-off of pre-petition accounts receivable due to the bankruptcy of WorldCom and Global Crossing. In 2003, the incumbent local exchange carriers recovered \$2.7 million of the bad debt write-offs related to the WorldCom bankruptcy filing. Corporate management expenses increased \$10.5 million in 2003 partially reflecting expense related to an employee retirement incentive plan.

Depreciation and amortization expenses decreased slightly to \$130.0 million in 2003 and decreased 1% (\$1.6 million) to \$130.2 million in 2002 from \$131.8 million in 2001. Investment in plant and equipment decreased \$4.5 million in 2003 and increased \$16.6 million in 2002. In accordance with SFAS No. 142, effective January 1, 2002, TDS Telecom no longer amortizes telephone franchise costs (goodwill). No impairment charge was required upon the completion of the goodwill impairment reviews in 2003 and 2002. Amortization expense of goodwill amounted to \$6.6 million in 2001.

Operating income increased 4% (\$7.0 million) to \$174.9 million in 2003 and increased 4% (\$6.0 million) to \$167.9 million in 2002 from \$161.9 million in 2001. The local telephone operating margin was 26.8% in 2003, 26.8% in 2002 and 28.1% in 2001. Operating margin was impacted in 2003 by costs associated with an early retirement incentive plan totaling \$7.7 million. Operating margin decreased in 2002 due to bad debt expenses related to the bankruptcy filings of WorldCom and Global Crossing. The increase in operating margin in 2001 was caused by the growth in revenue along with the emphasis on controlling costs.

TDS Telecom's incumbent local exchange carrier operations are subject to the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." TDS Telecom periodically reviews the criteria for applying these provisions to determine whether continuing application of SFAS No. 71 is appropriate. TDS Telecom believes that such criteria are still being met and therefore has no current plans to change its method of accounting.

Competitive Local Exchange Carrier Operations

TDS Telecom's competitive local exchange operations strategy maintains a geographic focus and is designed to leverage TDS Telecom's existing management and infrastructure to complement TDS Telecom's incumbent local exchange carrier operations clustering strategy. TDS Telecom has followed a strategy of controlled entry into certain targeted mid-size communities, regionally proximate to existing TDS Telecom facilities and service areas, with facilities-based entry as a competitive local exchange operations. TDS Telecom's strategy is to be the leading alternative provider for customers' wired telecommunications needs in its competitive local exchange markets.

TDS Telecom's first competitive local exchange operations, TDS Metrocom, became operational providing service in Madison, Wisconsin in January 1998. TDS Metrocom is a facilities-based,

full-service alternative to the incumbent local exchange carrier, providing both voice and data services to commercial and consumer accounts, as well as wholesale services to inter-exchange carriers and other carriers. TDS Telecom also began offering local service through USLink on a resale basis in 1998 in Minnesota. TDS Metrocom operates in the Madison, greater Fox Valley, suburban Milwaukee, Racine, Kenosha, Janesville and Beloit, Wisconsin markets, in the Rockford and Lake County, northern suburbs of Chicago, Illinois markets, and in the greater Grand Rapids, Kalamazoo, Battle Creek, Holland, Grand Haven, Lansing, Jackson, Ann Arbor and the western suburbs of Detroit, Michigan markets. Equivalent access lines increased by 25% in 2003 (73,400), 52% in 2002 (99,300) and 71% (80,000) in 2001.

Operating Revenues

Year Ended December 31,	2003	2002	2001
(Dollars in thousands)			
Total Competitive			
Local Exchange Revenues	\$213,501	\$176,602	\$118,812

Operating revenues (revenue from the provision of local and long-distance telephone service and access revenue from long-distance providers) increased 21% (\$36.9 million) to \$213.5 million in 2003, and increased 49% (\$57.8 million) to \$176.6 million in 2002 from \$118.8 million in 2001. The increases were primarily due to the increases in equivalent access lines in both years. Average monthly revenue per equivalent access line was \$54.66 in 2003, \$60.13 in 2002 and \$67.89 in 2001. The decline in average monthly revenue per equivalent access line is primarily related to FCC orders that have reduced the amount that can be charged to Internet service providers and long-distance carriers.

Operating Expenses

Year Ended December 31,	2003	2002	2001
(Dollars in thousands)			
Cost of services and products (exclusive of depreciation and amortization included below)	\$ 86,377	\$ 85,909	\$ 64,827
Selling, general and administrative expense	115,175	124,359	79,384
Depreciation and amortization	33,363	29,059	17,574
Loss on asset impairments	4,563	—	—
Total Competitive			
Local Exchange Expenses	\$239,478	\$239,327	\$161,785

Operating expenses increased slightly to \$239.5 million in 2003 and increased 48% (\$77.5 million) to \$239.3 million in 2002 from \$161.8 million in 2001. Operating expenses remained flat in 2003 as the competitive local exchange carriers did not expand into any new markets. Expenses have been shifted from expanding into new markets to penetrating current markets. In 2003, the competitive

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

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and accrued taxes. The following table is a summary of the components of cash flows from continuing operating activities.

Year Ended December 31,	2003 (as restated)	2002	2001
(Dollars in thousands)			
Income (loss) from			
Continuing operations	\$ 60,006	\$ (987,737)	\$(173,963)
Noncash items included			
in Income from			
continuing operations	732,379	1,803,279	757,688
Income from continuing			
operations excluding			
noncash items	792,385	815,542	583,725
Changes in assets and			
liabilities from operations	128,028	(21,905)	(37,920)
	\$920,413	\$ 793,637	\$ 545,805

Cash Flows From Continuing Investing Activities primarily represents uses of funds to acquire, construct and upgrade modern high-quality communications networks and facilities as a basis for creating long-term value for shareowners. In recent years, rapid changes in technology and new opportunities have required substantial investments in revenue enhancing and cost reducing upgrades of TDS's networks. Cash flows used for investing activities primarily represent cash required for capital expenditures, and the acquisition of wireless and telephone properties and wireless spectrum. Proceeds from merger and divestiture transactions and distributions from unconsolidated entities have provided funds in recent years which have partially offset the cash requirements for investing activities; however, such sources cannot be relied upon to provide continuing or regular sources of financing.

The primary purpose of TDS's construction and expansion expenditures is to provide for customer growth, to upgrade service, and to take advantage of service-enhancing and cost-reducing technological developments in order to maintain competitive services. Cash expenditures for capital additions required \$777.0 million in 2003, \$899.0 million in 2002 and \$700.2 million in 2001. U.S. Cellular's capital additions totaled \$632.5 million in 2003, \$730.6 million in 2002 and \$503.3 million in 2001. These additions represent the construction of 507, 437 and 377 cell sites in 2003, 2002 and 2001, respectively, as well as other plant additions and costs related to the development of U.S. Cellular's office systems. In 2003 and 2002, these plant additions included approximately \$58 million and \$215 million, respectively, for the migration to a single digital wireless equipment platform. Other plant additions in all three years included significant amounts related to the replacement of retired assets and the changeout of analog equipment for digital equipment. TDS Telecom's capital additions for its incumbent local exchange carrier operations totaled \$111.9 million in 2003, \$116.5 million in 2002 and \$99.9 million in 2001 representing expenditures for switch modernization and outside plant facilities to maintain and enhance the quality of ser-

vice and offer new revenue opportunities. TDS Telecom's capital expenditures for competitive local exchange carrier operations totaled \$27.3 million in 2003, \$51.9 million in 2002 and \$96.9 million in 2001 for switching and other network facilities. Corporate capital expenditures totaled \$5.3 million in 2003.

Cash used for acquisitions, excluding cash acquired, totaled \$5.1 million in 2003, \$531.2 million in 2002 and \$392.8 million in 2001. TDS's acquisitions include primarily the purchase of controlling interests in wireless markets and telephone properties, minority interests that increased the ownership of majority-owned markets and wireless spectrum. U.S. Cellular received \$34.0 million from AT&T Wireless in August 2003 in connection with the exchange of properties for wireless licenses. Costs associated with the AT&T Wireless exchange of \$2.8 million were capitalized in 2003. U.S. Cellular purchased two additional minority interests in majority owned wireless markets in 2003 for \$2.3 million. See Acquisitions, Exchanges and Divestitures in the Liquidity and Capital Resources section.

On August 7, 2002, U.S. Cellular completed the acquisition of the Chicago market. U.S. Cellular paid \$431.9 million in cash, net of cash acquired, and issued \$175 million of 9% Notes due in 2032. U.S. Cellular financed the cash portion of the purchase price by using its revolving lines of credit and a \$105 million loan from TDS. An additional \$10.5 million was paid in January 2003 to adjust the purchase price for the final working capital adjustment. TDS also acquired two telephone companies (\$78.2 million), three PCS licenses (\$18.0 million) and additional minority interests in majority owned markets (\$3.1 million) in 2002.

In 2001, TDS added the majority interests in wireless licenses in 27 markets and two telephone companies. The wireless licenses were acquired on U.S. Cellular's behalf and through joint ventures. The licenses acquired through joint ventures are 100%-owned by the joint ventures, and U.S. Cellular is considered to have the controlling financial interest in these joint ventures for financial reporting purposes. The joint venture interests are consolidated in TDS's and U.S. Cellular's financial statements.

Cash totaling \$570.0 million was received by TDS from the merger of Deutsche Telekom and VoiceStream along with 131.5 million Deutsche Telekom AG ordinary shares in 2001.

Distributions from unconsolidated investments provided \$45.4 million in 2003, \$31.3 million in 2002 and \$16.6 million in 2001. In 2002, U.S. Cellular received cash refunds of \$56.1 million on its FCC spectrum auction deposits.

Cash Flows From Continuing Financing Activities primarily reflects changes in short-term debt balances, proceeds from the sale of long-term debt and from entering into forward contracts, cash used to repurchase Common Shares and cash used for the repayment of long-term notes and the repurchase and conversion of debt securities.

TDS has used short-term debt to finance acquisitions, for general corporate purposes and to repurchase Common Shares. Internally generated funds as well as proceeds from forward contracts and the

sale of non-strategic cellular and other investments, from time to time, have been used to reduce short-term debt. In addition, TDS has taken advantage of opportunities to reduce short-term debt with proceeds from the sale of long-term debt securities, including sales of debt securities by subsidiaries.

In 2003, TDS redeemed and cancelled the \$300 million of Trust Originated Preferred Securities. The redemption was financed with cash on hand. U.S. Cellular repaid the remaining principal amount outstanding on its 9% Series A Notes with \$40.7 million in cash, which was financed using U.S. Cellular's revolving credit facilities. The 9% Series A Notes are now retired. On December 8, 2003, U.S. Cellular received \$432.9 million net proceeds from the issuance of its \$444.0 million of 6.7% Notes due December 2033. These proceeds were subsequently used to repay all outstanding borrowings under the revolving credit facility entered into in 1997.

In 2002, TDS received \$1,631.8 million from forward contracts related to its investments in Deutsche Telekom, Vodafone and VeriSign. A portion of the proceeds from the Deutsche Telekom and VeriSign forward contracts was used by TDS to pay down TDS's short-term debt. U.S. Cellular received \$159.9 million from forward contracts related to its Vodafone investment and used the proceeds to pay down short-term debt.

In November 2002, U.S. Cellular issued \$130 million face value of 8.75% Senior Notes due in November 2032. The net proceeds of \$129.8 million, after the reimbursement of expenses, were used to repurchase a portion of the \$175 million 9% Series A Notes that U.S. Cellular issued in connection with the acquisition of the Chicago market. TDS received \$484.2 million from the sale of \$500 million 40-year 7.6% Series A Notes in 2001. The proceeds were used to reduce short-term debt.

TDS retired a total of \$70.5 million, \$51.0 million and \$65.5 million of medium-term notes at par value in 2003, 2002 and 2001, respectively. The reduction of short-term debt required cash totaling \$461.7 million in 2003. The increase in short-term debt provided \$196.5 million in 2002. The reduction of short-term debt required \$249.5 million in 2001. Dividends paid on Common and Preferred Shares, excluding dividends reinvested, totaled \$36.2 million in 2003, \$34.4 million in 2002 and \$32.1 million in 2001.

The Board of Directors of TDS has authorized the repurchase of TDS Common Shares. During 2003, TDS repurchased 1,961,000 of its Common Shares, for an aggregate purchase price of \$92.4 million, or an average of \$47.10 per share including commissions. No shares were repurchased in 2002. During 2001, TDS repurchased 325,000 of its Common Shares, for an aggregate purchase price of \$30.3 million, or an average of \$93.47 per share including commissions. Cash required for the repurchase of the Common Shares totaled \$86.8 million in 2003 and \$39.4 million in 2001 reflecting differences in the number of shares acquired and timing differences in the cash disbursements.

The Board of Directors of U.S. Cellular from time to time has authorized the repurchase of U.S. Cellular Common Shares not owned by TDS. In 2000, the Board of Directors of U.S. Cellular authorized the repurchase of up to 4.2 million of its Common Shares through three separate 1.4 million share programs. The final 1.4 million share authorization expired in December 2003. The Board of Directors of U.S. Cellular has also authorized the repurchase of a limited amount of U.S. Cellular Common Shares on a quarterly basis, primarily for use in the employee benefit plans. U.S. Cellular did not purchase any of its Common Shares in 2003 and 2002. During 2001, U.S. Cellular repurchased 643,000 of its Common Shares for an aggregate purchase price of \$29.9 million, or an average of \$46.45 per share. Cash required for the repurchase of U.S. Cellular Common Shares totaled \$40.9 million in 2001 including \$11.0 million paid in January 2001 related to December 2000 Common Share repurchases.

In 2001, U.S. Cellular paid \$32.0 million in cash and issued 644,000 U.S. Cellular Common Shares to satisfy the retirement of \$126.2 million face value (\$55.1 million carrying value) of 6% zero coupon convertible debentures by the holders. U.S. Cellular's 6% zero coupon convertible debentures, also known as Liquid Yield Option Notes, are convertible, at the option of the holders, at any time prior to maturity, redemption or purchase, into U.S. Cellular Common Shares at a conversion rate of 9.475 U.S. Cellular Common Shares per \$1,000 Note. Upon notice of conversion, U.S. Cellular has the option to deliver to holders either U.S. Cellular Common Shares or cash equal to the market value of such Common Shares. U.S. Cellular has opportunistically repurchased Liquid Yield Option Notes in private transactions and in open-market transactions.

LIQUIDITY AND CAPITAL RESOURCES

Management believes that internal cash flow, existing cash and cash equivalents and funds available from line of credit arrangements provide sufficient financial resources to finance its near-term capital, business development and expansion expenditures. TDS and its subsidiaries have access to public and private capital markets to help meet their long-term financing needs. TDS and its subsidiaries anticipate accessing public and private capital markets to issue debt and equity securities only when and if capital requirements, financial market conditions and other factors warrant.

However, the availability of external financial resources is dependent on economic events, business developments, technological changes, financial conditions or other factors. If at any time financing is not available on terms acceptable to TDS, TDS might be required to reduce its business development and capital expenditure plans, which could have a materially adverse effect on its business and financial condition. TDS does not believe that any circumstances that could materially adversely affect TDS's liquidity or its capital resources are currently reasonably likely to occur, but it cannot provide assurances that such circumstances will not occur or

that they will not occur rapidly. Economic downturns, changes in financial markets or other factors could rapidly change the availability of TDS's liquidity and capital resources. Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development and acquisition programs.

U.S. Cellular and TDS Telecom are generating substantial internal funds from operations. Cash flow from continuing operating activities totaled \$920.4 million in 2003, \$793.6 million in 2002 and \$545.8 million in 2001. Cash flow from continuing operating activities in 2001 was reduced by about \$147.5 million for income taxes paid (net of credits utilized) on the taxable gain from the merger of Deutsche Telekom and VoiceStream.

TDS and its subsidiaries had Cash and cash equivalents totaling \$937.7 million at December 31, 2003. TDS anticipates using the cash for general corporate purposes.

Revolving Credit Facilities

As discussed below, TDS and its subsidiaries had \$1,296.6 million of revolving credit facilities available for general corporate purposes as well as an additional \$75.0 million of bank lines of credit as of December 31, 2003.

TDS had a \$600 million revolving credit facility for general corporate purposes at December 31, 2003. TDS had \$3.2 million of letters of credit outstanding against the revolving credit agreement leaving \$596.8 million available for use. The 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 December 31, 2003 (for a rate of 1.42% based on the 30-day LIBOR rate at December 31, 2003).

TDS also had \$75.0 million of additional bank lines of credit for general corporate purposes at December 31, 2003, all of which were unused. These lines of credit expire in less than one year. These line of credit agreements provide for borrowings at negotiated rates up to the prime rate (4.0% at December 31, 2003).

In December 2003, U.S. Cellular increased its bank revolving line of credit originally entered into in 2002 ("2002 Revolving Credit Facility") to \$700 million from \$325 million. At December 31, 2003, this line of credit had \$699.8 million available net of outstanding letters of credit totaling \$0.2 million. The 2002 Revolving Credit Facility is to be used for general corporate purposes and expires in June 2007. This line of credit provides for borrowings with interest at the LIBOR rate plus a margin percentage, based on U.S. Cellular's credit rating, which was 55 basis points as of December 31, 2003 (for a rate of 1.67% based on the 30-day LIBOR rate at December 31, 2003).

At December 31, 2002 and up until December 23, 2003, U.S. Cellular had a \$500 million revolving credit facility. U.S. Cellular terminated its \$500 million revolving credit facility on December 23, 2003 in connection with the increase of its 2002 Revolving Credit Facility from \$325 million to \$700 million.

TDS's and U.S. Cellular's interest costs would increase if their credit rating goes down which would increase their cost of financing, but their credit facilities would not cease to be available solely as a result of a decline in their credit rating. A downgrade in TDS's or U.S. Cellular's credit rating could adversely affect their ability to renew existing, or obtain access to new, credit facilities in the future. The continued availability of the revolving credit facilities requires TDS and U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and to represent certain matters at the time of each borrowing. Certain of TDS's and U.S. Cellular's credit facilities would accelerate in the event of a change in control.

The restatements of the financial statements for the years ended December 31, 2003 and 2002 resulted in defaults under the revolving credit agreements between TDS and certain lenders and under the revolving credit agreement between U.S. Cellular and certain lenders. Neither TDS nor U.S. Cellular has failed to make or expects to fail to make any scheduled payment of principal or interest under such revolving credit agreements. TDS and U.S. Cellular have received waivers from the lenders under which the lenders agreed to waive any defaults that may have occurred as a result of the restatements.

Long-term Financing

At December 31, 2003, TDS and its subsidiaries are in compliance with all covenants and other requirements set forth in long-term debt indentures. TDS does not have any rating downgrade triggers that would accelerate the maturity dates of its long-term debt. However, a downgrade in TDS's credit rating could adversely affect its ability to refinance existing, or obtain access to new, long-term debt in the future.

TDS repurchased \$5.0 million of 10% Medium-Term Notes in June 2003 at 115.75% of par value. The loss on retirement of debt totaled \$787,500 and was reported in the caption Other income (expense), net in the statements of operations. TDS redeemed \$65.5 million of Series B Medium-Term Notes with interest rates of 8%–8.4% in July 2003 at par value. There was no gain or loss on the retirement of these notes at par value. TDS wrote off to Other income (expense), net in the statements of operations, deferred expenses related to the Medium-Term Notes totaling \$0.4 million that were previously included in Other Assets and Deferred Charges on the balance sheet.

In September 2003, TDS's subsidiary trusts, TDS Capital I and TDS Capital II redeemed all of their outstanding Trust Originated Preferred Securities ("TOPrSSM"). 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. The outstanding amount of the 8.5% TOPrS redeemed was \$150 million. The outstanding amount of the 8.04% TOPrS redeemed was \$150 million. There was no gain or loss on the redemption of these securities. TDS wrote off deferred expenses related to the TOPrS totaling \$8.7 million that was previously included in Other Assets and Deferred Charges on the balance sheet to Other income (expense), net in the statements of operations.

On December 8, 2003, U.S. Cellular issued \$444.0 million in 6.7% Senior Notes due December 2033. Interest on the notes is payable semi-annually on June 15 and December 15 of each year. The \$432.9 million in proceeds were used to repay all outstanding short-term debt. U.S. Cellular may redeem the notes, in whole or in part, at any time prior to maturity at a redemption price equal to the greater of (a) 100% of the principal amount of such notes, plus accrued but unpaid interest, or (b) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semi-annual basis at the treasury rate plus .30%.

In November 2002, U.S. Cellular sold \$130 million of 8.75% Senior Notes due in November 2032. Interest is payable quarterly. The notes are callable by U.S. Cellular after five years at the principal amount plus accrued but unpaid interest. The \$129.8 million net proceeds from the sale of the notes (after reimbursement of expenses) were used to purchase a portion of the 9% Series A Notes that were issued to PrimeCo. In January 2003, U.S. Cellular repurchased the remaining \$45.2 million of 9% Series A Notes from PrimeCo related to the Chicago market acquisition. The repurchase was financed using short-term debt. Following such repurchases, all of the 9% Series A Notes were cancelled.

Marketable Equity Securities and Forward Contracts

TDS and its subsidiaries hold a substantial amount of marketable equity securities that are publicly traded and can have volatile 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 resulted from TDS's sale of its over 80%-owned personal communications services operating subsidiary, Aerial Communications, to VoiceStream Wireless for stock of VoiceStream, which was then acquired by Deutsche Telekom in exchange for Deutsche Telekom stock. The investment in Vodafone resulted from certain sales or trades of non-strategic cellular investments to or settlements with AirTouch Communications in exchange for stock of AirTouch, which was then acquired by Vodafone for 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 is the result of the acquisition by VeriSign of Illuminet, Inc., a telecommunications entity in

which several TDS subsidiaries held interests. TDS has not disposed of the investments primarily because their low tax basis would trigger a substantial taxable gain upon disposal.

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. TDS and U.S. Cellular have provided guarantees to the lenders which provide assurance to the lenders that all principal and interest amounts will be paid upon settlement of the contracts by their subsidiaries. If shares are delivered in the settlement of the forward contract, TDS and U.S. Cellular would incur a current tax liability at the time of delivery based on the difference between the tax basis of the marketable equity securities delivered and the net amount realized through maturity. Deferred taxes have been provided for the difference between the book basis and the tax basis of the marketable equity securities and are included in deferred tax liabilities on the balance sheet. As of December 31, 2003, such deferred tax liabilities totaled \$1,044.2 million.

The restatements of the financial statements for the years ended December 31, 2003 and 2002 resulted in defaults under certain forward contracts between subsidiaries of TDS and U.S. Cellular and a counterparty. Neither TDS nor U.S. Cellular has failed to make or expects to fail to make any scheduled payment of principal or interest under such forward contracts. TDS and U.S. Cellular and their respective subsidiaries have received waivers from the counterparty under which the counterparty agreed to waive any defaults that may have occurred as a result of the restatements.

Capital Expenditures

U.S. Cellular's anticipated capital expenditures for 2004 primarily reflect plans for construction, system expansion, the buildout of certain of its personal communication service licensed areas and additional expenditures related to its plans to migrate to a single digital equipment platform. U.S. Cellular plans to finance its construction program using internally generated cash and short-term financing. U.S. Cellular's estimated capital spending for 2004 is \$610 million to \$630 million. These expenditures primarily address the following needs:

- Expand and enhance U.S. Cellular's coverage in its service areas.
- Provide additional capacity to accommodate increased network usage by current customers.
- Build out certain licensed areas acquired in 2001, 2002 and 2003.
- Addition of digital service capabilities to its systems, including completing the migration toward a single digital equipment platform, Code Division Multiple Access ("CDMA"), from a mixture of CDMA and another digital technology, Time Division Multiple Access.
- Enhance U.S. Cellular's retail store network and office systems.

U.S. Cellular's overlay of existing technologies with CDMA is largely completed, and when the project is fully completed in 2004 it anticipates total expenditures related to the project to be no more than \$300 million. U.S. Cellular will utilize CDMA technology in building out the licenses it has acquired and expects to acquire in the future from AT&T Wireless.

The cost estimates for the CDMA migration project have been revised from the original estimate of \$400 to \$450 million to reflect divestitures of markets, more favorable pricing than expected and additional efficiencies in the conversion process. U.S. Cellular has contracted with multiple infrastructure vendors to provide a substantial portion of the equipment related to the conversion.

U.S. Cellular expects capital expenditures related to the buildout of the licensed areas it acquired in 2001 through 2003, including those in the AT&T Wireless exchange transaction, to be substantial. U.S. Cellular plans to build networks to serve these licensed areas and launch commercial service in these areas over the next several years. Approximately \$100 million of the estimated capital spending for 2004 is allocated to the buildout of certain of these licenses, and U.S. Cellular expects a significant portion of its capital spending over the next few years to be related to the buildout of its wireless licensed areas.

TDS Telecom's estimated capital spending for 2004 approximates \$150 million. The incumbent local telephone companies are expected to spend approximately \$105 million to provide for normal growth and to upgrade plant and equipment to provide enhanced services. The competitive local exchange companies are expected to spend approximately \$45 million primarily to build switching and transmission facilities to meet the needs of a growing customer base. TDS Telecom plans to finance its construction program using primarily internally generated cash.

Acquisitions, Exchanges and Divestitures

TDS assesses its holdings on an ongoing basis in order to maximize the benefits derived from its operations. TDS also reviews attractive opportunities to acquire additional telecommunications companies and wireless spectrum, which it believes will add value to the business.

Acquisition of the Chicago Market

On August 7, 2002, U.S. Cellular completed the acquisition of the Chicago market, for approximately \$618 million, including working capital and other adjustments. U.S. Cellular financed the purchase using its revolving credit facilities, 9% Series A Notes and the Intercompany Note. Net of cash acquired in the transaction and notes issued to the sellers of the Chicago market, U.S. Cellular used cash totaling \$431.9 million for this acquisition.

Other Acquisitions

In 2002, U.S. Cellular, through joint ventures, acquired majority interests in licenses in three wireless markets. The interests U.S. Cellular acquired are 100% owned by the joint ventures, and U.S. Cellular is considered to have the controlling financial interest in these joint ventures for financial reporting purposes. U.S. Cellular

also acquired the remaining minority interests in three other wireless markets in which it previously owned the controlling financial interest for financial reporting purposes, resulting in 100% ownership in those markets. Also in 2002, TDS acquired two incumbent local telephone companies. The aggregate amount paid by TDS to acquire the interests in these transactions was \$99.3 million.

In 2001, U.S. Cellular, on its own behalf and through joint ventures, acquired majority interests in licenses in 27 wireless markets for \$182.3 million in cash, which excluded \$4.1 million of deposits on potential future acquisitions. These deposits were returned to U.S. Cellular in 2002 and no additional interests were acquired related to the deposits. The interests U.S. Cellular acquired through joint ventures are 100% owned by the joint ventures, and U.S. Cellular is considered to have the controlling financial interest in these joint ventures for financial reporting purposes. Also in 2001, TDS acquired 100% of the outstanding common shares of Chorus Communications Group, Ltd. The aggregate purchase price was \$202.8 million in cash, excluding cash acquired.

At December 31, 2003, U.S. Cellular had entered into an agreement to purchase the remaining interests in three licenses in which it currently owns controlling interests for \$34.8 million in cash. This transaction was completed in January 2004.

Exchanges

On August 1, 2003, U.S. Cellular completed the transfer of properties to AT&T Wireless and the assignments to it by AT&T Wireless of a portion of the wireless licenses covered by the agreement with AT&T Wireless. On the initial closing date, U.S. Cellular also received approximately \$34 million in cash and minority interests in six wireless markets in which it currently owns a controlling interest. Also on the initial closing date, U.S. Cellular transferred wireless assets and customers in 10 markets in Florida and Georgia to AT&T Wireless. U.S. Cellular has deferred the assignment and development of 21 licenses it has the right to acquire from AT&T Wireless until later periods. The value of these licenses is recorded as Wireless license rights on the balance sheet. When this transaction is fully consummated, U.S. Cellular will have received wireless licenses in 13 states. The licenses are contiguous to and overlap existing U.S. Cellular properties in the Midwest and Northeast.

Divestitures

On November 26, 2003, U.S. Cellular announced that it had entered into a definitive agreement to sell its southern Texas wireless markets to AT&T Wireless for \$95 million in cash plus a working capital adjustment subject to certain closing provisions. The closing of the sale occurred in February 2004. The U.S. Cellular assets sold to AT&T Wireless include 25 megahertz metropolitan statistical area and rural service area licenses representing 1.3 million population equivalents, approximately 150 cell sites and 76,000 customers. Total revenues from the markets sold totaled \$60.6 million in the year ended December 31, 2003, while operating income totaled \$17.1 million. Operating income does not include shared services costs that have been allocated to the markets from the U.S. Cellular corporate office.

The sale was accounted for in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." The balance sheet at December 31, 2003 reflects assets and liabilities of the wireless properties to be sold as assets and liabilities of operations held for sale. The revenues and expenses of the markets were included in operations until the completion of the sale in February 2004.

The following table summarizes the recorded value of the assets and liabilities of the markets that TDS transferred.

December 31,	2003
(Dollars in thousands)	
Current assets	\$ 5,363
Property, plant and equipment	45,710
Other assets	316
Licenses, net	63,569
Goodwill	7,565
Loss on assets held for sale	(22,000)
Total assets	100,523
Current liabilities	2,189
Non-current liabilities	238
Total liabilities	2,427
Net assets to be transferred	\$ 98,096

Repurchase of Securities and Dividends

As market conditions warrant, TDS and U.S. Cellular may repurchase their Common Shares on the open market or at negotiated prices in private transactions. In 2003, the Board of Directors authorized the repurchase of up to 3.0 million TDS Common Shares through February 2006. U.S. Cellular's Common Share repurchase authorization expired in December 2003. However, U.S. Cellular continues to have authorization to repurchase a limited amount of additional shares on a quarterly basis, primarily for use in employee benefit plans. The repurchase programs are intended to create value for the shareholders. Any repurchases of Common Shares will be funded by internal cash flow, supplemented by short-term borrowings and other sources.

The U.S. Cellular Board of Directors has authorized management to opportunistically repurchase Liquid Yield Option Notes in private transactions. U.S. Cellular may also purchase a limited amount of such Notes in open-market transactions from time to time. U.S. Cellular Liquid Yield Option Notes are convertible, at the option of their holders, at any time prior to maturity, redemption or purchase, into U.S. Cellular Common Shares at a conversion rate of 9.475 U.S. Cellular Common Shares per \$1,000 face value Note. Upon conversion, U.S. Cellular has the option to deliver to holders either U.S. Cellular Common Shares or cash equal to the market value of the U.S. Cellular Common Shares into which the Liquid Yield Option Notes are convertible. U.S. Cellular may redeem the Liquid Yield Option Notes for cash at the issue price plus accrued original issue discount through the date of redemption.

TDS paid total dividends on its Common and Preferred Stock of \$36.2 million in 2003, \$34.4 million in 2002 and \$32.1 million in 2001. TDS has no current plans to change its policy of paying dividends. TDS paid quarterly dividends of \$.155, \$.145 and \$.135 in 2003, 2002 and 2001, respectively.

Contractual Obligations

As of December 31, 2003, the resources required for scheduled repayment of contractual obligations were as follows:

Contractual Obligations	Total	Payments due by Period			
		Less than 1 Year	2 - 3 Years	4 - 5 Years	More than 5 Years
(Dollars in millions)					
Long-term Debt Obligations ⁽¹⁾	\$2,018.6	\$ 23.7	\$246.0	\$ 296.3	\$1,452.6
Forward Contracts ⁽²⁾	1,754.1	—	—	1,754.1	—
Operating Leases ⁽³⁾	494.1	90.4	148.1	100.2	155.4
Purchase Obligations ⁽⁴⁾⁽⁵⁾	272.4	228.4	42.5	1.5	—
	\$4,539.2	\$342.5	\$436.6	\$2,152.1	\$1,608.0

(1) Scheduled debt repayments include long-term debt and the current portion of long-term debt but excludes \$160.3 million of unamortized discount on certain long-term debt instruments. See Note 15 - Long-term Debt.

(2) Schedule of debt repayments excludes \$81.4 million of unamortized discount on zero coupon debt. See Note 15 - Long-term Debt.

(3) Represents the amounts due under noncancellable, long-term operating leases for the periods specified. See Note 23 - Commitments and Contingencies. TDS has no material capital leases.

(4) Includes amounts payable under other agreements to purchase goods or services, including open purchase orders. Also includes obligations due under equipment vendor contracts. The 2004 amounts are also included in estimated capital expenditures for U.S. Cellular. See Note 23 - Commitments and Contingencies.

(5) Includes \$6.9 million for other post-retirement benefits to be paid in 2004. No amounts for other post-retirement benefits are included in periods beyond 2004 as these amounts are discretionary and have not yet been determined.

Off-Balance Sheet Arrangements

TDS has no transactions, agreements or contractual arrangements with unconsolidated entities involving "off-balance sheet arrangements," as defined by SEC rules, that have or are reasonably likely to have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, revenues or expenses.

TDS has certain variable interests in investments in unconsolidated entities where TDS holds a minority interest. The investments in unconsolidated entities total \$214.9 million as of December 31, 2003 and are accounted for using either the equity or cost method. TDS's maximum loss exposure for these variable interests is limited to the aggregate carrying amount of the investments.

Indemnity Agreements

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 term of the indemnification varies 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.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

TDS prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. TDS's significant accounting policies are discussed in detail in Note 1 to the consolidated financial statements.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from estimates under different assumptions or conditions.

Management believes the following reflect its more significant accounting policies and estimates used in the preparation of its consolidated financial statements. TDS's senior management has discussed the development of each of the following accounting policies and estimates and the following disclosures with the audit committee of the TDS Board of Directors.

Investment in Licenses and Goodwill

TDS reported \$1,189.3 million of Wireless license costs and \$887.9 million of goodwill at December 31, 2003 as a result of the acquisition of wireless licenses and markets, and the acquisition of operating telephone companies. In addition, TDS reported \$42.0 million of Wireless license rights related to the licenses that will be received when the AT&T Wireless exchange transaction is fully completed. Included in Assets of Operations Held for Sale was \$63.6 million of license costs and \$7.6 million of goodwill at December 31, 2003.

See Note 5 – Wireless License Costs/Goodwill for a schedule of wireless license costs and goodwill activity in 2003 and 2002.

Wireless licenses and goodwill must be reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. TDS performs the annual impairment review on wireless license investments and goodwill during the second quarter. There can be no assurance that upon review at a later date material impairment charges will not be required.

The intangible asset impairment test consists of comparing the fair value of the intangible asset to the carrying amount of the intangible asset. If the carrying amount exceeds the fair value, an impairment loss is recognized for the difference. The goodwill impairment test is a two-step process. The first step compares the fair value of the reporting unit, as identified in accordance with SFAS No. 142, to its carrying value. If the carrying amount exceeds the fair value, the second step of the test is performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. To calculate the implied fair value of goodwill, an enterprise allocates the fair value of the reporting unit to all of the assets and liabilities of that reporting unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities of the reporting unit is the implied fair value of goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized for that difference.

The fair value of an intangible asset and reporting unit goodwill is the amount at which that asset or reporting unit could be bought or sold in a current transaction between willing parties. Therefore, quoted market prices in active markets are the best evidence of fair value and should be used when available. If quoted market prices are not available, the estimate of fair value is based on the best information available, including prices for similar assets and the use of other valuation techniques. Other valuation techniques include present value analysis, multiples of earnings or revenue or a similar performance measure. The use of these techniques involve assumptions by management about factors that are highly uncertain including future cash flows, the appropriate discount rate, and other inputs. Different assumptions for these inputs or valuation methodologies could create materially different results.

U.S. Cellular tests goodwill for impairment at the level of reporting referred to as a reporting unit. U.S. Cellular has identified seven reporting units pursuant to paragraph 30 of SFAS No. 142. The seven reporting units represent seven geographic groupings of FCC licenses, constituting seven markets or service areas. U.S. Cellular combines its FCC licenses into seven units of accounting for purposes of testing the licenses for impairment pursuant to Emerging

Issues Task Force Statement 02-7 "Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets" ("EITF 02-7") and SFAS No. 142, using the same geographic groupings as its reporting units.

U.S. Cellular retained a third-party valuation firm to prepare valuations of the seven reporting units for purposes of goodwill impairment testing. A discounted cash flow approach was used to value each of the reporting units, using value drivers and risks specific to each individual geographic region. The cash flow estimates incorporate assumptions that market participants would use in their estimates of fair value. Key assumptions made in this process were the selection of a discount rate, estimated future cash flow levels, projected capital expenditures, and selection of terminal values.

U.S. Cellular also retained a third-party valuation firm to prepare valuations of the seven groupings of FCC licenses (units of accounting pursuant to EITF 02-7). The valuations were prepared using an excess earnings methodology, through the use of a discounted cash flow approach. This excess earnings methodology estimates the fair value of the intangible assets (FCC license units of accounting) by measuring the future cash flows of the license groups, reduced by charges for contributory assets such as working capital, trademarks, existing subscribers, fixed assets, assembled workforce and goodwill.

TDS Telecom has recorded goodwill primarily as a result of the acquisition of operating telephone companies. TDS Telecom has assigned goodwill to its incumbent local exchange carrier reporting unit (\$397.3 million), its competitive local exchange carrier reporting units (\$29.4 million), and a wireless investment reporting unit (\$30.9 million). The incumbent local exchange carrier reporting unit was valued using a multiple of cash flow valuation technique. The competitive local exchange carrier and wireless investment reporting units were valued using a discounted cash flow analysis.

TDS recorded an impairment loss on wireless license costs totaling \$49.6 million in 2003 related to the impairment of two reporting units. Upon adoption of SFAS No. 142 in 2002, TDS recorded an initial impairment loss on wireless license costs held by U.S. Cellular of \$10.4 million (\$20.9 million net of income taxes of \$8.2 million and minority interest of \$2.3 million) as a cumulative effect of an accounting change.

In 2003, U.S. Cellular recorded a \$3.5 million license cost impairment loss related to the investment in a non-operating market in Florida remaining after the AT&T Wireless exchange. Also in 2003, U.S. Cellular reduced the carrying value of one of its cost method investments by \$1.7 million based on a cash flow analysis of the investment. Both charges were included in Loss on marketable equity securities and other investments in the statements of operations.

There was no impairment of goodwill assigned to the incumbent local exchange carrier operations or the competitive local exchange carrier operations. The carrying value of the wireless investment

held by TDS Telecom exceeded the estimated fair value by approximately \$5.0 million, and TDS Telecom recorded an impairment loss on goodwill in this reporting unit by that amount in 2003.

Asset Retirement Obligations

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 a liability recorded is recognized in the statement of operations as a gain or loss.

The calculation of the asset retirement obligation for TDS is a critical accounting estimate because changing the factors used in calculating the obligation could result in larger or smaller estimated obligation that could have a significant impact on TDS's results of operations and financial condition. Such factors may include probabilities or likelihood of remediation, cost estimates, lease renewals and salvage values. Actual results may differ materially from estimates under different assumptions or conditions.

U.S. Cellular is subject to asset retirement obligations associated primarily with its cell sites, retail sites and office locations. Asset retirement obligations include costs 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, and has recorded an initial \$54.4 million liability upon the adoption of SFAS No. 143 on January 1, 2003. Current year additions and accretion have increased the December 31, 2003 asset retirement obligation to \$64.5 million.

TDS Telecom's incumbent local exchange carriers have their rates regulated by the respective state public utility commissions and the FCC, and therefore, reflect the effects of the rate-making actions of these regulatory bodies in the financial statements of the TDS incumbent local exchange carriers. 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 carriers have recorded an asset retirement obligation in accordance with the requirements of SFAS No. 143 and a regulatory liability for the amounts of costs of removal that these regulatory bodies 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. At January 1, 2003, the TDS Telecom incumbent local telephone carriers reclassified \$29.9 million from accumulated depreciation to an asset retirement obligation in conjunction with the adoption of SFAS No. 143. Additionally, the incumbent local telephone carriers continue to accrue costs of removal as a component of depreciation expense pursuant to depreciation rates set forth by the respective state public utility commissions. Effective December 31, 2003, the TDS Telecom incumbent local exchange carriers have also reclassified \$31.8 million from accumulated depreciation to an asset retirement obligation. This amount consists of the costs of removal in excess of the asset retirement obligation as required by SFAS No. 143 that the respective state regulatory authorities have required the incumbent local exchange carriers to recognize as a regulatory liability.

The total asset retirement obligation, including the regulatory obligation at TDS Telecom was \$60.0 million at December 31, 2003. The regulatory liability included in asset retirement obligation at December 31, 2003 and at January 1, 2003 was \$28.2 million and \$25.4 million, respectively. The asset retirement obligation calculated in accordance with the provisions of SFAS No. 143 as of December 31, 2003 and January 1, 2003 was \$31.8 million and \$29.9 million, respectively.

TDS Telecom's competitive local exchange carriers adopted SFAS No. 143 effective January 1, 2003. TDS Telecom determined that its competitive local exchange carriers do not have a material legal obligation to remove long-lived assets as described by SFAS No. 143, and accordingly, adoption of SFAS No. 143 did not have a material effect on the competitive local exchange carriers' financial position or results of operations.

See the Asset Retirement Obligations section in Note 1 – Summary of Significant Accounting Policies for a schedule of the changes in asset retirement obligations in 2003.

Income Taxes

The accounting for income taxes, the amounts of income tax assets and liabilities and the related income tax provision are critical accounting estimates because such amounts are significant to TDS's financial condition, changes in financial condition and results of operations.

The preparation of the consolidated financial statements requires TDS to calculate a provision for income taxes. This process involves calculating the current income tax liability together with assessing temporary differences resulting from the different treatment of items, such as depreciation expense, for tax and accounting

purposes as well as estimating the impact of potential adjustments to filed tax returns. These temporary differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheet. TDS must then assess the likelihood that deferred tax assets will be recovered from future taxable income and to the extent management believes that recovery is not likely, establish a valuation allowance. Management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. TDS's current net deferred tax asset was \$19.4 million as of December 31, 2003, representing primarily the deferred tax effects of the allowance for doubtful accounts on accounts receivable.

The temporary differences that gave rise to the noncurrent deferred tax assets and liabilities as of December 31, 2003 are as follows:

December 31,	2003 (as restated)
(Dollars in thousands)	
Deferred Tax Asset	
Net operating loss carryforwards	\$ 82,054
Derivative accounting	286,247
	<u>368,301</u>
Less valuation allowance	(67,209)
Total Deferred Tax Asset	<u>301,092</u>
Deferred Tax Liability	
Marketable equity securities	1,044,230
Property, plant and equipment	312,232
Partnership investments	24,627
Licenses	203,989
Other	1,038
Total Deferred Tax Liability	<u>1,586,116</u>
Net Deferred Income Tax Liability	<u>\$1,285,024</u>

The valuation allowance relates to state net operating loss carryforwards and the federal operating loss carryforwards for those subsidiaries not included in the consolidated federal income tax return since it is more likely than not that a portion will expire before such carryforwards can be utilized.

The deferred income tax liability relating to marketable equity securities of \$1,044.2 million at December 31, 2003 represents deferred income taxes calculated on the difference between the book basis and the tax basis of the marketable equity securities. Income taxes will be payable when TDS sells the marketable equity securities.

TDS is routinely subject to examination of its income tax returns by the Internal Revenue Service ("IRS") and other tax authorities. TDS periodically assesses the likelihood of adjustments to its tax liabilities resulting from these examinations to determine the adequacy of its provision for income taxes, including related

interest. Management judgment is required in assessing the eventual outcome of these examinations. Changes to such assessments affect the calculation of TDS's income tax expense. The IRS has completed audits of TDS's federal income tax returns for tax years through 1996.

In the event of an increase in the value of tax assets or a decrease in the value of tax liabilities, TDS would decrease the income tax expense or increase the income tax benefit by an equivalent amount. In the event of a decrease in the value of tax assets or an increase in the value of tax liabilities, TDS would increase the income tax expense or decrease the income tax benefit by an equivalent amount.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following persons are partners of Sidley Austin Brown & Wood LLP, the principal law firm of TDS and its subsidiaries: Walter C.D. Carlson, a trustee and beneficiary of a voting trust that controls TDS, the nonexecutive chairman of the board and member of the board of directors of TDS and a director of U.S. Cellular, a subsidiary of TDS; William S. DeCarlo, the General Counsel of TDS and an Assistant Secretary of TDS and certain subsidiaries of TDS; and Stephen P. Fitzell, the General Counsel of U.S. Cellular and an Assistant Secretary of certain subsidiaries of TDS. Walter C.D. Carlson does not provide legal services to TDS or its subsidiaries.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 SAFE HARBOR CAUTIONARY STATEMENT

This Management's Discussion and Analysis of Results of Operations and Financial Condition and other sections of this Annual Report contain statements that are not based on historical fact, including the words "believes," "anticipates," "intends," "expects," and similar words. These statements constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the following risks:

- *Increases in the level of competition in the markets in which TDS operates, or wireless for wireline substitution, could adversely affect TDS's revenues or increase its costs to compete.*
- *Consolidation in the wireless industry may create stronger competitors both operationally and financially which could adversely affect TDS's revenues and increase its costs to compete.*
- *Advances or changes in telecommunications technology, such as Voice over Internet Protocol, could render certain technologies used by TDS obsolete, could reduce TDS's revenues or could increase TDS's cost of doing business.*
- *Changes in the telecommunications regulatory environment, such as wireless number portability, local number portability and E-911 services, could adversely affect TDS's financial condition or results of operations or ability to do business.*
- *Changes in the supply or demand of the market for wireless licenses or telephone companies, adverse developments in the TDS businesses or the industries in which TDS is involved and/or other factors could result in an impairment of the value of TDS's license costs, goodwill and/or physical assets, which may require TDS to record a write-down in the value of such assets.*
- *Conversions of debt, early redemptions of debt or repurchases of debt, changes in prepaid forward contracts, operating leases, purchase obligations or other factors or developments could cause the amounts reported under Contractual Obligations to be different from the amounts presented.*
- *Changes in accounting standards or TDS's accounting policies, estimates and/or in the assumptions underlying the accounting estimates, including those described under Application of Critical Accounting Policies and Estimates, could have a material effect on TDS's financial condition, changes in financial condition and results of operations.*
- *Settlement, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on TDS's financial condition, results of operations or ability to do business.*
- *Costs, integration problems or other factors associated with acquisitions/divestitures of properties and/or licenses could have an adverse effect on TDS's financial condition or results of operations.*
- *Changes in prices, the number of customers, average revenue per unit, penetration rates, churn rates, selling expenses, net customer retention costs associated with wireless number portability and local number portability, roaming rates, access minutes of use, the mix of products and services offered or other business factors could have an adverse effect on TDS's business operations.*
- *Changes in roaming partners' rates, and the ability to provide voice and data services on other carriers' networks could have an adverse effect on TDS's operations.*
- *Changes in competitive factors with national and global wireless carriers could result in product and cost disadvantages and could have an adverse effect on TDS's operations.*
- *Lack of standards and roaming agreements for wireless data products could place U.S. Cellular's data service offerings at a disadvantage to those offered by other wireless carriers with more nationwide service territories.*
- *Changes in guidance or interpretations of accounting requirements, changes in industry practice or changes in management assumptions could require amendments to or restatements of disclosures or financial information included in this or prior filings with the SEC.*

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

- *Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions, changes in TDS's credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development and acquisition programs.*
- *Changes in the income tax rates or tax laws, regulations or rulings could have an adverse effect on TDS's financial condition and results of operations.*
- *War, conflicts, hostilities and/or terrorist attacks could have an adverse effect on TDS's businesses.*
- *Changes in general economic and business conditions, both nationally and in the markets in which TDS operates, including difficulties by telecommunications companies, could have an adverse effect on TDS's businesses.*

TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Readers should evaluate any statements in light of these important factors.

MARKET RISK

Long-term Debt

TDS is subject to market risks due to fluctuations in interest rates and equity markets. The majority of TDS's debt, excluding long-term debt related to the forward contracts, is in the form of long-term, fixed-rate notes and convertible debt with original maturities ranging up to 40 years. The long-term debt related to the forward contracts consists of both variable-rate debt and fixed-rate zero coupon debt. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of such instruments. As of December 31, 2003, TDS had not entered into any significant financial derivatives to reduce its exposure to interest rate risks.

The annual requirements for principal payments on long-term debt and the average interest rates are as follows:

	Payments Due by Period						After 5 Years
	Total	2004	2005	2006	2007	2008	
(Dollars in millions)							
Long-term Debt							
Obligations ⁽¹⁾	\$2,018.6	\$23.7	\$22.1	\$223.9	\$275.1	\$21.2	\$1,452.6
Average Interest							
Rate on Debt ⁽²⁾	7.1%	6.4%	6.1%	6.9%	7.2%	6.0%	7.0%
Forward							
Contracts ⁽³⁾	\$1,754.1	\$ —	\$ —	\$ —	\$738.7	\$1,015.4	\$ —
Average Interest							
Rate on							
Forward							
Contracts ⁽⁴⁾	2.4%	—%	—%	—%	1.7%	2.8%	—%

(1) Scheduled debt repayments include long-term debt and current portion of long-term debt, but exclude \$160.3 million of unamortized discount on certain long-term debt instruments.

(2) Represents the average interest rate on all long-term debt shown for the indicated period.

(3) Scheduled debt repayments exclude \$81.4 million of unamortized discount on zero coupon debt.

(4) Some of the forward contracts use a fixed rate, while others are variable based on the LIBOR rate plus 50 basis points. The December 31, 2003 three month LIBOR rate of 1.15% was used to determine average rates in 2007 and 2008.

At December 31, 2003 and 2002, the estimated fair value of long-term debt obligations was \$2,114.2 million and \$1,684.4 million, respectively, and the average interest rate on the debt was 7.1% and 7.0%, respectively. The estimated fair value of the forward contract loans was \$1,665.7 million and \$1,648.9 million at December 31, 2003 and 2002, respectively. Contracts aggregating \$1,295.3 million require quarterly interest payments at the LIBOR rate plus 50 basis points (for a rate of 1.7% based on the 30-day LIBOR rate at December 31, 2003). Contracts aggregating \$458.8 million are structured as zero coupon obligations with a weighted average effective interest rate of 4.4% per year. The fair value was estimated based upon a discounted cash flow analysis. The fair value of long-term debt was estimated using market prices for TDS's 7.6% Series A Notes, U.S. Cellular's 8.75% Senior Notes and U.S. Cellular's Liquid Yield Option Notes and discounted cash flow analysis for the remaining debt. The Trust Originated Preferred Securities were redeemed in 2003 - see Long-term Financing. At December 31, 2002, the trust securities totaled \$300 million and had an average interest rate of 8.3%. The fair value of the trust securities was \$296.7 million based upon the market price at December 31, 2002.

Marketable Equity Securities and Derivatives

TDS maintains a portfolio of available-for-sale marketable equity securities, the majority of which are the result of sales or trades of non-strategic assets. The market value of these investments aggregated \$2,772.4 million at December 31, 2003, and \$1,944.9 million at December 31, 2002. As of December 31, 2003, the net unrealized holding gain, net of tax included in accumulated other comprehensive income totaled \$748.8 million. This amount was \$243.4 million at December 31, 2002. In 2002, TDS recognized, in the statement of operations, pre-tax losses of \$1,757.5 million (\$1,045.0 million, net of tax and minority interest of \$712.5 million), related to investments in marketable equity securities as a result of management's determination that unrealized losses with respect to the investments were other than temporary.

Subsidiaries of TDS and U.S. Cellular have entered into a number of forward contracts related to the marketable equity securities that they hold. TDS and U.S. Cellular have provided guarantees to the lenders which provide assurance to the lenders that all principal and interest amounts are paid upon settlement of the contracts by such subsidiaries. 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 ("downside limit") while retaining a share of gains from increases in the market prices of such securities ("upside potential"). The downside limit is hedged at or above the cost basis thereby eliminating the risk of an other than temporary loss being recorded on these contracted securities.

Under the terms of the forward contracts, TDS and U.S. Cellular will continue to own the contracted shares and will receive dividends paid on such contracted shares, if any. 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 in cash, pursuant to formulas that "collar" the price of the shares. The collars effectively limit downside risk and upside potential on the contracted shares. The collars are typically adjusted for any changes in dividends on the contracted shares. If TDS and U.S. Cellular elect to settle in shares, they will be required to deliver the number of shares of the contracted security determined pursuant to the formula. If shares are delivered in the settlement of the forward contract, TDS and U.S. Cellular would incur a current tax liability at the time of delivery based on the difference between the tax basis of the marketable equity securities delivered and the net amount realized through maturity. If TDS and U.S. Cellular elect to settle in cash they will be required to pay an amount in cash equal to the fair market value of the number of shares determined pursuant to the formula.

Deferred taxes have been provided for the difference between the financial reporting basis and the income tax basis of the marketable equity securities and are included in deferred tax liabilities on the balance sheet. Such deferred tax liabilities totaled \$1,044.2 million at December 31, 2003, and \$739.0 million at December 31, 2002.

The following table summarizes certain facts surrounding the contracted securities as of December 31, 2003.

Security	Shares	Collar ⁽¹⁾		Loan Amount (000s)
		Downside Limit (Floor)	Upside Potential (Ceiling)	
VeriSign	2,361,333	\$ 8.82	\$11.46	\$ 20,819
Vodafone ⁽²⁾	12,945,915	\$15.07–\$16.07	\$20.60–\$23.20	201,038
Deutsche Telekom	131,461,861	\$10.74–\$12.41	\$13.71–\$16.33	1,532,257
				1,754,114
Unamortized debt discount				81,352
				\$1,672,762

(1) The per share amounts represent the range of floor and ceiling prices of all the securities monetized.

(2) U.S. Cellular owns 10.2 million and TDS Telecom owns 2.7 million Vodafone American Depositary Receipts.

The following analysis presents the hypothetical change in the fair value of marketable equity securities and derivative instruments at December 31, 2003 and December 31, 2002, using the Black-Scholes model, assuming hypothetical price fluctuations of plus and minus 10%, 20% and 30%. The table presents hypothetical information as required by SEC rules. Such information should not be inferred to suggest that TDS has any intention of selling any marketable equity securities or canceling any derivative instruments.

(Dollars in millions)

	December 31, 2003	Valuation of investments assuming indicated increase		
	Fair Value	+10%	+20%	+30%
Marketable Equity				
Securities	\$2,722.4	\$2,994.6	\$3,266.9	\$3,539.1
Derivative Instruments ⁽¹⁾	\$ (712.3)	\$ (962.7)	\$ (1,218.5)	\$ (1,478.1)

	December 31, 2003	Valuation of investments assuming indicated decrease		
	Fair Value	-10%	-20%	-30%
Marketable Equity				
Securities	\$2,722.4	\$2,450.2	\$2,177.9	\$1,905.7
Derivative Instruments ⁽¹⁾	\$ (712.3)	\$ (467.0)	\$ (228.6)	\$ 3.6

	December 31, 2002	Valuation of investments assuming indicated increase		
	Fair Value	+10%	+20%	+30%
Marketable Equity				
Securities	\$1,944.9	\$2,139.4	\$2,333.9	\$2,528.4
Derivative Instruments ⁽¹⁾	\$ (58.5)	\$ (241.2)	\$ (420.6)	\$ (600.6)

	December 31, 2002	Valuation of investments assuming indicated decrease		
	Fair Value	-10%	-20%	-30%
Marketable Equity				
Securities	\$1,944.9	\$1,750.4	\$1,556.0	\$1,361.5
Derivative Instruments ⁽¹⁾	\$ (58.5)	\$ 111.6	\$ 287.3	\$ 461.8

(1) Represents the fair value of the derivative instruments assuming the indicated increase or decrease in the underlying securities.