# Notes to Consolidated Financial Statements

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Nature of Operations*

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 customers 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 ("ILEC") and Competitive Local Exchange Carrier ("CLEC") wireline telephone operations through its wholly-owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom").

See Note 26 – Business Segment Information for summary financial information on each business segment.

### *Restatement*

On April 19, 2004, TDS announced that it would restate its 2003 and 2002 financial statements relating to the implementation of Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets," which was adopted on January 1, 2002. Prior to January 1, 2002, TDS allocated the excess of purchase price 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. A summary of the changes to the affected captions in the 2003 and 2002 statement of operations and balance sheets are included below:

| Year Ended or at December 31, 2003 | As Originally Reported | Effects of 2003 Accounting Changes | As Restated |
|---|---|---|---|
| (Dollars in thousands, except per share amounts) | | | |
| **Statement of Operations:** | | | |
| Operating Expenses | | | |
| (Loss) on assets held for sale | $(52,761) | $ 1,939 | $(50,822) |
| (Loss) on impairment of intangible assets | — | (49,595) | (49,595) |
| Operating Income | 315,544 | (47,656) | 267,888 |
| Income (loss) before income taxes and minority interest | 178,392 | (47,656) | 130,736 |
| Income tax expense (benefit) | | | |
| Tax effect of changes to loss on assets held for sale | | (9,952) | |
| Tax effect of impairments | | (19,590) | |
| | 79,892 | (29,542) | 50,350 |
| Minority share of income | | | |
| Minority share of changes to loss on assets held for sale | | (2,123) | |
| Minority share of (loss) on impairments | | 5,355 | |
| | (23,612) | 3,232 | (20,380) |
| Income (loss) before cumulative effect of accounting change | 73,279 | (14,882) | 58,397 |
| Cumulative effect of accounting change, net of tax and minority interest | (11,789) | — | (11,789) |
| Net income (loss) | $ 61,490 | $(14,882) | $ 46,608 |
| Basic earnings (loss) per share | | | |
| Continuing Operations | $ 1.29 | $(0.26) | $ 1.03 |
| Discontinued Operations | (0.03) | — | (0.03) |
| Cumulative effect of accounting change | (0.20) | — | (0.20) |
| Net income (loss) | $ 1.06 | $(0.26) | $ 0.80 |
| Diluted earnings (loss) per share | | | |
| Continuing Operations | $ 1.28 | $(0.26) | $ 1.02 |
| Discontinued Operations | (0.03) | — | (0.03) |
| Cumulative effect of accounting change | (0.20) | — | (0.20) |
| Net income (loss) | $ 1.05 | $(0.26) | $ 0.79 |

| Year Ended or at December 31, 2003 | As Originally Reported | Effects of 2003 Accounting Changes | As Restated |
|---|---|---|---|
| (Dollars in thousands) | | | |
| **Balance Sheet:** | | | |
| Wireless license costs | | | |
| Restatement from goodwill | | $ 138,885 | |
| Increase in deferred tax liability on restatement of wireless license costs | | 90,677 | |
| 2002 impairment | | (20,921) | |
| 2003 impairment | | (49,595) | |
| Adjustment to amount transferred to Assets of operations held for sale | | (21,759) | |
| | $ 1,052,039 | 137,287 | $ 1,189,326 |
| Goodwill | | | |
| Restatement to Wireless license costs | | (138,885) | |
| Adjustment to amount transferred to Assets of operations held for sale | | 23,698 | |
| | 1,003,124 | (115,187) | 887,937 |
| Total Assets | $10,171,238 | $ 22,100 | $10,193,338 |
| Net deferred income tax liability | | | |
| Increase in deferred tax liability on restatement of wireless license costs | | $ 90,677 | |
| Tax on 2002 impairment | | (8,264) | |
| Tax on 2003 impairment | | (19,590) | |
| Tax effect of changes to loss on assets held for sale | | (9,952) | |
| | $1,232,153 | 52,871 | $1,285,024 |
| Minority interest in subsidiaries | | | |
| 2002 impact | | (2,256) | |
| 2003 impact | | (3,232) | |
| | 508,190 | (5,488) | 502,702 |
| Retained Earnings | | | |
| 2002 cumulative effect impact | | (10,401) | |
| 2003 impact | | (14,882) | |
| | 1,456,954 | (25,283) | 1,431,671 |
| Total Liabilities and Stockholders' Equity | $10,171,238 | $ 22,100 | $10,193,338 |

| Year Ended or at December 31, 2002 | As Originally Reported | Effects of 2002 Accounting Changes | As Restated |
|---|---|---|---|
| (Dollars in thousands, except per share amounts) | | | |
| **Statement of Operations:** | | | |
| Income (loss) before cumulative effect of accounting change | $ (987,737) | $ — | $ (987,737) |
| Cumulative effect of accounting change | 3,366 | (10,401) | (7,035) |
| Net income (loss) | $ (984,371) | $ (10,401) | $ (994,772) |
| Basic earnings (loss) per share | | | |
| Continuing Operations | $ (16.85) | $ — | $ (16.85) |
| Cumulative effect of accounting change | 0.06 | (0.18) | (0.12) |
| Net income (loss) | $ (16.79) | $ (0.18) | $ (16.97) |
| Diluted earnings (loss) per share | | | |
| Continuing Operations | $ (16.85) | $ — | $ (16.85) |
| Cumulative effect of accounting change | 0.06 | (0.18) | (0.12) |
| Net income (loss) | $ (16.79) | $ (0.18) | $ (16.97) |
| **Balance Sheet:** | | | |
| Wireless license costs | | | |
| Restatement from goodwill | | $ 138,885 | |
| Increase in deferred tax liability on restatement of wireless license costs | | 90,677 | |
| 2002 impairment | | (20,921) | |
| | $1,038,556 | 208,641 | $1,247,197 |
| Goodwill | | | |
| Restatement of goodwill | 1,106,451 | (138,885) | 967,566 |
| Total Assets | $9,602,028 | $ 69,756 | $9,671,784 |
| Net deferred income tax liability | | | |
| Increase in deferred tax liability on restatement of wireless license costs | | $ 90,677 | |
| Tax on 2002 impairment | | (8,264) | |
| | $1,097,791 | 82,413 | $1,180,204 |
| Minority interest in subsidiaries | 489,735 | (2,256) | 487,479 |
| Retained Earnings | 1,431,657 | (10,401) | 1,421,256 |
| Total Liabilities and Stockholders' Equity | $9,602,028 | $ 69,756 | $9,671,784 |

### *Principles of Consolidation*

The accounting policies of TDS conform to accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of TDS, its majority-owned subsidiaries since acquisition and the wireless partnerships in which it has a majority general partnership interest or has a controlling financial interest. All material intercompany items have been eliminated.

### *Business Combinations*

TDS uses the purchase method of accounting for business combinations. TDS includes as investments in subsidiaries the value of the consideration given and all direct and incremental costs relating to acquisitions. All costs relating to unsuccessful negotiations for acquisitions are charged to expense.

### *Use of Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (a) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and (b) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Reclassifications*

Certain amounts reported in prior years have been reclassified to conform to current period presentation. The reclassifications had no impact on previously reported net income and stockholders' equity.

Prior to the fourth quarter of 2003, TDS included costs for equipment sold to retain current U.S. Cellular customers in selling, general and administrative expense. 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.

Statement of Financial Accounting Standards ("SFAS") No. 145 "Rescission of SFAS No. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections" was issued in April 2002, and is effective for fiscal years beginning after May 15, 2002, with early application encouraged. The provisions of SFAS No. 145 preclude gains and losses on the extinguishment of debt from being classified as extraordinary. In 2002, TDS elected to adopt SFAS No. 145 early and as a result no longer reports the retirement of debt as extraordinary. Loss on debt retirement of $5.7 million, net of minority interest of $1.2 million, for the year ended December 31, 2001, previously recorded as an extraordinary item, has been reclassified. Loss on debt extinguishment of $7.0 million in 2001 is included in the Investment and Other Income (Expense) section of the statements of operations. The minority interest amount is included in the Minority Share of Income caption. There were no income taxes associated with this loss.

### *Cash and Cash Equivalents*

Cash and cash equivalents include cash and those short-term, highly-liquid investments with original maturities of three months or less.

Outstanding checks totaled $22.3 million and $8.3 million at December 31, 2003 and 2002, respectively, and are classified as Accounts payable in the consolidated balance sheets.

### *Marketable Equity Securities*

Marketable equity securities are classified as available-for-sale, and are stated at fair market value. Net unrealized holding gains and losses are included in Accumulated other comprehensive income. Realized gains and losses are determined on the basis of specific identification.

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

Factors that management considers in determining whether a decrease in the market value of its securities is an other than temporary decline include if there has been a significant change in the financial condition, operational structure or near-term prospects of the issuer; how long and how much the security has been below carrying value; and whether TDS has the intent and ability to retain its investment in the issuer's securities to allow the market value to return to the accounting cost basis.

TDS utilizes derivative financial instruments to reduce market risks due to fluctuations in market prices of marketable equity securities. At December 31, 2003 and 2002, TDS had prepaid forward contracts ("forward contracts") maturing in 2007 and 2008 in connection with substantially all TDS's marketable equity security portfolio, hedging the market price risk with respect to the contracted securities. The downside risk is hedged at or above the accounting cost basis thereby eliminating the risk of an other than temporary loss being recorded on these contracted securities.

### *Derivative Instruments*

TDS utilizes derivative financial instruments to reduce marketable equity security market value risk. TDS does not hold or issue derivative financial instruments for trading purposes. TDS recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value. Changes in fair value of those instruments are reported in the statements of operations or Accumulated other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. The accounting for gains and losses associated with changes in the fair value of the derivative and the effect on the consolidated financial statements depends on the derivative's hedge designation and whether the hedge is anticipated to be highly effective in achieving offsetting changes in the fair value of the hedged item or cash flows of the asset hedged.

### *Wireless License Costs*

Wireless license costs consist of costs incurred in acquiring Federal Communications Commission ("FCC") licenses to provide wireless service. These costs include amounts paid to license applicants and owners of interests in entities awarded licenses and all direct and incremental costs relating to acquiring the licenses. Wireless license costs are intangible assets with indefinite useful lives and beginning January 1, 2002, with the implementation of SFAS No. 142 "Goodwill and Other Intangible Assets", are not amortized. Prior to 2002, wireless license costs were amortized over 40 years.

Management has determined that wireless licenses are intangible assets with indefinite useful lives, based on the following factors:

- Radio spectrum is not a depleting asset.
- The ability to use radio spectrum is not limited to any one technology.
- U.S. Cellular and its consolidated subsidiaries are licensed to use radio spectrum through the FCC licensing process, which enables licensees to utilize specified portions of the spectrum for the provision of wireless service.
- U.S. Cellular and its consolidated subsidiaries are required to renew their FCC licenses every ten years. To date, all of U.S. Cellular's license renewal applications, filed for unique cellular licenses in every year from 1994 to the present, have been granted by the FCC. Generally, license renewal applications filed by wireless licensees otherwise in compliance with FCC regulations are routinely granted. If, however, a license renewal application is challenged, either by a competing applicant for the license or by a petition to deny the renewal application, the license will be renewed if the licensee can demonstrate its entitlement to a "renewal expectancy". Licensees are entitled to such an expectancy if they can demonstrate to the FCC that they have provided "substantial service" during their license term and have "substantially complied" with FCC rules and policies. U.S. Cellular believes that it could demonstrate its entitlement to a renewal expectancy in any of its markets in the unlikely event any of its license renewal applications were challenged and therefore believes that it is probable that its future license renewal applications will be granted.

An intangible asset that is not subject to amortization is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess.

### *Wireless License Rights*

In accordance with the exchange agreement with AT&T Wireless, U.S. Cellular has deferred the assignment and development of certain licenses for a period of up to five years from the closing date, August 1, 2003. The 21 licenses that have not yet been assigned to U.S. Cellular, with fair value totaling $42.0 million, are included in Wireless license rights on the balance sheet. All asset values related to the properties acquired or pending, including license values, were determined using an independent valuation. See Note 12 – Acquisitions, Divestitures and Exchanges for a discussion of the AT&T Wireless exchange.

### *Goodwill*

TDS has goodwill as a result of the acquisition of wireless licenses and markets, and the acquisition of operating telephone companies. U.S. Cellular's goodwill reflects the portion of the purchase price of acquisitions of interests in operating wireless markets that was not assigned to the fair values of the other acquired assets, including wireless licenses. TDS Telecom's goodwill reflects the costs in excess of the underlying fair value of the net tangible and intangible assets of acquired telephone companies. TDS adopted SFAS No. 142 on January 1, 2002, and no longer amortizes goodwill. Prior to 2002, goodwill was amortized over 40 years. Goodwill is tested for impairment annually. The impairment test consists of a comparison of the implied fair value of the goodwill with its carrying amount. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

### *Investments in Unconsolidated Entities*

Investments in unconsolidated entities consists of investments where TDS holds a 50% or less non-controlling ownership interest. TDS follows the equity method of accounting, which recognizes TDS's proportionate share of the income and losses accruing to it under the terms of its partnership or shareholder agreements, where TDS's ownership interest equals or exceeds 20% for corporations and 3% to 5% for partnerships and limited liability companies. The cost method of accounting is followed for interests where TDS's ownership interest is less than 20% for corporations and 3% to 5% for partnerships and limited liability companies, or where TDS does not have the ability to exercise significant influence.

### *Property, Plant and Equipment*

**U.S. Cellular**

U.S. Cellular's property, plant and equipment is stated at the original cost of construction including capitalized costs of certain taxes, payroll-related expenses, and estimated costs to remove the assets in accordance with SFAS No. 143 "Accounting for Asset Retirement Obligations."

Renewals and betterments of units of property are recorded as additions to plant in service. The original cost of depreciable property retired (along with the related accumulated depreciation) is removed from plant in service and, together with removal cost less any salvage realized, is charged to depreciation expense. Repairs and renewals of minor units of property are charged to system operations expense.

Costs of developing new information systems are capitalized in accordance with Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use," ("SOP 98-1") and amortized starting when each new system is placed in service.

**TDS Telecom**

*Incumbent Local Exchange Operations*

TDS Telecom's incumbent local exchange carrier property, plant and equipment is stated at the original cost of construction including the capitalized costs of certain taxes, payroll-related expenses, and an allowance for funds used during construction.

Renewals and betterments of units of property are recorded as additions to telephone plant in service. The original cost of depreciable property retired is removed from plant in service and, together with removal cost less any salvage realized, is charged to accumulated depreciation. No gain or loss is recognized on ordinary retirements of depreciable telephone property. Repairs and renewals of minor units of property are charged to plant operations expense.

Costs of developing new information systems are capitalized and amortized starting when each new system is placed in service.

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

*Competitive Local Exchange Operations*

TDS Telecom's competitive local exchange carrier property, plant and equipment is stated at the original cost of construction including capitalized costs of certain taxes and payroll-related expenses.

Renewals and betterments of units of property are recorded as additions to plant in service. The original cost of depreciable property retired (along with the related accumulated depreciation) is removed from plant in service and, together with removal cost less any salvage realized, is charged to expense. Repairs and renewals of minor units of property are charged to expense.

Costs of developing new information systems are capitalized and amortized starting when each new system is placed in service.

*Depreciation*

U.S. Cellular provides for depreciation using the straight-line method over the estimated useful lives of the assets.

TDS Telecom's incumbent local exchange carrier operations provide for depreciation on a group basis according to depreciable rates approved by state public utility commissions. TDS Telecom's competitive local exchange carrier operations provide for depreciation using the straight-line method over the estimated useful lives of the assets.

*Assets and Liabilities of Operations Held For Sale*

TDS accounts for the disposal of long-lived assets in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." When long-lived assets meet the held for sale criteria set forth in SFAS No. 144, the balance sheet reflects the assets and liabilities of the properties to be disposed of as assets and liabilities of operations held for sale. The assets and liabilities of operations held for sale are presented separately in the asset and liability sections of the balance sheet. The revenues and expenses of the properties to be disposed of are included in operations until the transaction is completed. See Note 10 – Operations Held for Sale for the discussion of the sale and exchange of long-lived assets.

*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 obligations, any differences between the cost to retire an asset and the liability recorded is recognized in the statement of operations as a gain or loss.

U.S. Cellular is subject to asset retirement obligations associated primarily with its cell sites, retail sites and office locations. Legal obligations include obligations to remediate leased land on which U.S. Cellular's cell sites and switching offices are located. U.S. Cellular is also required to return 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 a liability and related asset retirement obligation accretion expense. The change in asset retirement obligation during 2003 was as follows:

(Dollars in thousands)

| | |
|---|---|
| Beginning balance – January 1, 2003 | $54,438 |
| Additional liabilities accrued | 5,641 |
| Accretion expense | 4,422 |
| Ending balance – December 31, 2003 | $64,501 |

TDS Telecom's incumbent local exchange carriers' rates are 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 telephone 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 carriers 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. As of December 31, 2003, the TDS Telecom incumbent local telephone companies have also reclassified $31.8 million from accumulated depreciation to an asset retirement obligation which 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 telephone companies to recognize as a regulatory liability.

The change in asset retirement obligation and regulatory obligation during 2003 was as follows:

(Dollars in thousands)

| | |
|---|---|
| Beginning balance – January 1, 2003 | $55,300 |
| Additional liabilities incurred | 5,600 |
| Costs of removal incurred in 2003 | (900) |
| Ending balance – December 31, 2003 | $60,000 |

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 at December 31, 2003 and at January 1, 2003 was $31.8 million and $29.9 million, respectively.

TDS Telecom's competitive local telephone carriers adopted SFAS No. 143 effective January 1, 2003. TDS Telecom determined that its competitive local telephone 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 carrier's financial position or results of operations.

### *Revenue Recognition*

Revenues from wireless operations primarily consist of charges for access, airtime, roaming and value added services provided for U.S. Cellular's retail customers; charges to carriers whose customers use U.S. Cellular's systems when roaming; charges for long-distance calls made on U.S. Cellular's systems; end user equipment sales; and sales of accessories. Revenues are recognized as services are rendered. Unbilled revenues, resulting from wireless service provided from the billing cycle date to the end of each month and from other wireless carriers' customers using U.S. Cellular's systems for the last half of each month, are estimated and recorded.

Equipment sales represent a separate earnings process. Revenues from equipment and accessory sales are recognized upon delivery to the customer. In order to provide better control over handset quality, U.S. Cellular began selling handsets to agents beginning in the second quarter of 2002 at a price approximately equal to cost. In most cases, the agents receive rebates from U.S. Cellular at the time the agents sign up new customers or retain current customers. U.S. Cellular accounts for the sale of equipment to agents in accordance with Emerging Issues Task Force ("EITF") Statement 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." This standard requires that equipment sales revenue be reduced by the anticipated rebates to be paid to the agents at the time the agent purchases the handsets rather than at the time the agent signs up a new customer or retains a current customer.

Activation fees charged with the sale of service only are deferred and recognized over the average customer service period.

Effective January 1, 2002, U.S. Cellular adopted EITF Statement 00-21 "Accounting for Multiple Element Arrangements." Under this pronouncement, activation fees charged with the sale of equipment and service are allocated to the equipment and service based upon the relative fair values of each item. Due to the subsidy provided on customer handsets, this generally results in the recognition of the activation fee as additional handset revenue at the time of sale. Upon the initial adoption of Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition," in 2000, had U.S. Cellular deferred activation fees associated with the sales of equipment and service at the time of activation, with subsequent recognition over the expected customer service period, the financial results for all periods presented would not have been materially different from those originally reported. The effect of adopting EITF 00-21 did not have a material impact on any of the periods as originally reported.

During December 2003, the SEC issued SAB 104, "Revenue Recognition," which revised and rescinded portions of SAB 101. The issuance of SAB 104 did not impact TDS's revenue recognition policies.

Revenue from wireline operations primarily consists of charges for the provision of local telephone exchange service; compensation for carrying interstate and intrastate long-distance traffic on TDS Telecom's local telephone networks; and charges for (i) leasing, selling, installing and maintaining customer premise equipment,

(ii) providing billing and collection services, (iii) providing Internet services, (iv) reselling long-distance services and (v) selling digital broadcast satellite receivers. Revenues are recognized as services are rendered.

TDS's incumbent local exchange carriers participate in revenue pools with other telephone companies for interstate revenue and for certain intrastate revenue. Such pools are funded by toll revenue and/or access charges within state jurisdictions and by access charges in the interstate market. Revenues earned through the various pooling processes are initially recorded based on TDS Telecom's estimates.

### *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.

The following pro forma amounts show the effect of the retroactive application of the change in accounting principle for the adoption of SFAS No. 143:

| Year Ended December 31, | 2003 (as restated) | 2002 (as restated) | 2001 |
|---|---|---|---|
| (Dollars in thousands, except per share amounts) | | | |
| Actual | | | |
| Net income (loss) | **$46,608** | $(994,772) | $(198,055) |
| Basic earnings (loss) per share | **$ 0.80** | $ (16.97) | $ (3.38) |
| Diluted earnings (loss) per share | **$ 0.79** | $ (16.97) | $ (3.38) |
| Pro forma | | | |
| Net income (loss) | **$58,397** | $(997,321) | $(200,025) |
| Basic earnings (loss) per share | **$ 1.00** | $ (17.01) | $ (3.41) |
| Diluted earnings (loss) per share | **$ 0.99** | $ (17.01) | $ (3.41) |

| (Dollars in thousands) | December 31, 2002 | December 31, 2001 | January 1, 2001 |
|---|---|---|---|
| Pro forma – Balance Sheet data | | | |
| Asset retirement obligation | $109,738 | $92,946 | $78,806 |

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 wireless license costs. 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 income 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 deferred activation fees revenue. TDS believes this change is a preferable method of accounting for such costs primarily due to the fact that the new method of accounting provides for better matching of revenue from customer activations to direct incremental costs associated with these activations within each reporting period. The cumulative effect of this accounting change on periods prior to 2002 was recorded in 2002 increasing net income by $3.4 million, net of tax of $3.0 million and minority interest of $1.2 million, or $.06 per diluted share. Upon the initial adoption of SAB 101, had U.S. Cellular deferred expense recognition for a portion of commissions expenses in the amount of deferred activation fees revenue, Net Income (Loss) Available to Common, and Basic and Diluted Earning per Share would have been ($198.1) million, ($3.38) and ($3.38), respectively, for the year ended December 31, 2001.

### *Advertising Costs*

TDS expenses advertising costs as incurred. Advertising expense totaled $140.9 million, $105.3 million, and $77.2 million in 2003, 2002 and 2001, respectively.

### *Bad Debt Expense*

Bad debt expense totaled $65.5 million, $84.9 million, and $28.5 million in 2003, 2002 and 2001, respectively.

### *Income Taxes*

TDS files a consolidated federal income tax return. Deferred taxes are computed using the liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Both deferred tax assets and liabilities are measured using the tax rates anticipated to be in effect when the temporary differences reverse. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred tax assets are reduced by a valuation allowance when, in management's opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

### *Stock-Based Compensation*

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

TDS recorded compensation expense of $0.3 million on 53,000 options granted in 2003. No compensation costs have been recognized for the remaining 615,000 options granted in 2003. No compensation costs have been recognized for the stock option and employee stock purchase plans in 2002 and 2001. Had compensation cost for all stock option and employee stock purchase plans been determined consistent with SFAS No. 123, TDS's net income available to common and earnings per share would have been reduced to the following pro forma amounts:

| Year Ended December 31, | 2003 (as restated) | 2002 (as restated) | 2001 |
|---|---|---|---|
| (Dollars in thousands, except per share amounts) | | | |
| Net Income (Loss) | | | |
| Available to Common | | | |
| As Reported | **$ 46,191** | $(995,199) | $(198,513) |
| Pro Forma Expense | **(14,886)** | (11,503) | (5,429) |
| Pro Forma | **31,305** | (1,006,702) | (203,942) |
| Basic Earnings per Share from | | | |
| Net Income (Loss) | | | |
| Available to Common | | | |
| As Reported | **0.80** | (16.97) | (3.38) |
| Pro Forma Expense | **(0.26)** | (0.20) | (0.10) |
| Pro Forma | **0.54** | (17.17) | (3.48) |
| Diluted Earnings per Share from | | | |
| Net Income (Loss) | | | |
| Available to Common | | | |
| As Reported | **0.79** | (16.97) | (3.38) |
| Pro Forma Expense | **(0.26)** | (0.20) | (0.10) |
| Pro Forma | **$ 0.53** | $ (17.17) | $ (3.48) |

### *Asset Impairment*

TDS reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. TDS evaluates the asset for possible impairment based on an estimate of related undiscounted cash flows over the remaining asset life. If an impairment is identified, a loss is recognized for the difference between the fair value of the asset (less cost to sell) and the carrying value of the asset.

### *Recent Accounting Pronouncements*

Financial Accounting Standards Board ("FASB") Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," was issued in January 2003. It 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.

## 2 INCOME TAXES

Income tax provisions charged to Income (loss) from continuing operations before minority interest are summarized as follows:

| Year Ended December 31, | 2003 (as restated) | 2002 | 2001 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Current | | | |
| Federal | **$ 8,881** | $ 1,273 | $ 184,562 |
| State | **20,243** | 2,365 | 36,936 |
| Foreign | **—** | 7,068 | — |
| Deferred | | | |
| Federal | **29,844** | (491,616) | (210,893) |
| State | **(8,618)** | (96,090) | (55,513) |
| Total income tax expense (benefit) from continuing operations | **$50,350** | $(577,000) | $ (44,908) |

A reconciliation of TDS's income tax expense (benefit) from continuing operations computed at the statutory rate to the reported income tax expense (benefit) from continuing operations, and the statutory federal income tax expense (benefit) rate to TDS's effective income tax expense (benefit) rate from continuing operations, is as follows:

| Year Ended December 31, | 2003 | | 2002 | | 2001 | |
|---|---|---|---|---|---|---|
| | Amount (as restated) | Rate | Amount | Rate | Amount | Rate |
| (Dollars in millions) | | | | | | |
| Statutory federal income tax expense (benefit) | **$45.8** | **35.0%** | $(544.5) | (35.0)% | $(62.6) | (35.0)% |
| State income taxes, net of federal benefit | **1.9** | **1.5** | (57.2) | (3.7) | (4.8) | (2.7) |
| Amortization of license costs and goodwill | **—** | **—** | — | — | 6.3 | 3.5 |
| Minority share of income not included in consolidated tax return | **(4.3)** | **(3.3)** | (4.3) | (0.3) | (2.6) | (1.5) |
| Gains (losses) on marketable equity securities, other investments and assets held for sale | **3.9** | **3.0** | 12.6 | 0.8 | 3.1 | 1.7 |
| Resolution of prior period tax issues | **1.8** | **1.4** | 11.5 | 0.7 | 9.8 | 5.5 |
| Foreign tax | **—** | **—** | 4.6 | 0.3 | — | — |
| Debt extinguishment | **—** | **—** | — | — | 2.4 | 1.4 |
| Other differences, net | **1.3** | **0.9** | 0.3 | 0.1 | 3.5 | 2.0 |
| Total income tax expense (benefit) | **$50.4** | **38.5%** | $(577.0) | (37.1)% | $(44.9) | (25.1)% |

Income from continuing operations for each of the three years ended December 31, 2003, includes gains and losses (reported in the captions “Loss on marketable equity securities and other investments” and “Loss on assets held for sale and impairments” in the statements of operations) that significantly affected income (loss) from continuing operations before income taxes and minority interest and income tax expense. The effective income tax rate excluding such gains and losses was 38.6%, 43.1%, and 45.2% for the years ended December 31, 2003, 2002, and 2001, respectively.

Income tax provisions charged to net income (loss) are summarized as follows:

| Year Ended December 31, | 2003 (as restated) | 2002 (as restated) | 2001 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Current | | | |
| Federal | $ 8,861 | $ 1,273 | $ 184,562 |
| State | 20,029 | 2,365 | 36,936 |
| Foreign | — | 7,068 | — |
| Deferred | | | |
| Federal | 21,035 | (495,999) | (204,469) |
| State | (10,436) | (97,021) | (55,513) |
| Total income tax expense (benefit) | $39,489 | $(582,314) | $ (38,484) |

Included in total income tax expense (benefit) are deferred income tax benefits on cumulative effect of accounting changes of $9.7 million in 2003 and $5.3 million in 2002. Discontinued operations was reduced by deferred income tax benefits of $1.2 million in 2003 and $6.4 million in 2001.

TDS’s current net deferred tax assets totaled $19.4 million and $20.3 million as of December 31, 2003 and 2002, respectively. The net current deferred tax asset primarily represents the deferred tax effects of the allowance for doubtful accounts on customer receivables.

The temporary differences that gave rise to the noncurrent deferred tax assets and liabilities are as follows:

| December 31, | 2003 (as restated) | 2002 (as restated) |
|---|---|---|
| (Dollars in thousands) | | |
| Deferred Tax Asset | | |
| Net operating loss carryforwards | $ 82,054 | $ 80,645 |
| Derivative accounting | 286,247 | 32,473 |
| Partnership investments | — | 17,568 |
| | 368,301 | 130,686 |
| Less valuation allowance | (67,209) | (54,816) |
| Total Deferred Tax Asset | 301,092 | 75,870 |
| Deferred Tax Liability | | |
| Marketable equity securities | 1,044,230 | 739,045 |
| Property, plant and equipment | 312,232 | 299,730 |
| Partnership investments | 24,627 | — |
| Licenses | 203,989 | 212,486 |
| Other | 1,038 | 4,813 |
| Total Deferred Tax Liability | 1,586,116 | 1,256,074 |
| Net Deferred Income Tax Liability | $1,285,024 | $1,180,204 |

TDS and certain subsidiaries had $966.5 million of state net operating loss carryforward (generating a $73.7 million deferred tax asset) available to offset future taxable income primarily of the individual subsidiaries which generated the loss which expires between 2004 and 2023. Certain subsidiaries which are not included in the federal consolidated income tax return, but file separate tax returns, had a federal net operating loss carryforward (generating an $8.4 million deferred tax asset) available to offset future taxable income which expires between 2004 and 2023. A valuation allowance was established for a portion of the state operating loss carryforward and the federal operating loss carryforward since it is more than likely that a portion of such carryforwards will expire before they can be utilized.

## 3 EARNINGS PER SHARE

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

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

| Year Ended December 31, | 2003 (as restated) | 2002 (as restated) | 2001 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Basic Earnings per Share | | | |
| Income (Loss) from Continuing Operations | $ 60,006 | $(987,737) | $(173,963) |
| Preferred Dividend Requirement | (417) | (427) | (458) |
| Income (Loss) from Continuing Operations Available to Common | 59,589 | (988,164) | (174,421) |
| Discontinued Operations (Loss) on Disposal | (1,609) | — | (24,092) |
| Cumulative Effect of Accounting Change | (11,789) | (7,035) | — |
| Net Income (Loss) Available to Common used in Basic Earnings per Share | $ 46,191 | $(995,199) | $(198,513) |

| Year Ended December 31, | 2003 (as restated) | 2002 (as restated) | 2001 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Diluted Earnings per Share | | | |
| Income (Loss) from Continuing Operations Available to Common used in Basic Earnings per Share | **$ 59,589** | $(988,164) | $(174,421) |
| Minority Income Adjustment[1] | **(335)** | — | — |
| Income (Loss) from Continuing Operations Available to Common | **59,254** | (988,164) | (174,421) |
| Discontinued Operations (Loss) on Disposal | **(1,609)** | — | (24,092) |
| Cumulative Effect of Accounting Change | **(11,789)** | (7,035) | — |
| Net Income (Loss) Available to Common used in Diluted Earnings per Share | **$ 45,856** | $(995,199) | $(198,513) |

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

| Year Ended December 31, | 2003 | 2002 | 2001 |
|---|---|---|---|
| (Shares in thousands) | | | |
| Weighted Average Number of Common Shares used in Basic Earnings per Share | **57,721** | 58,644 | 58,661 |
| Effect of Dilutive Securities: | | | |
| Common Shares outstanding if Preferred Shares converted[1] | **—** | — | — |
| Stock options[2] | **154** | — | — |
| Weighted Average Number of Common Shares used in Diluted Earnings per Share | **57,875** | 58,644 | 58,661 |

(1) Preferred Shares convertible into 210,269 Common Shares in 2003, 231,013 Common Shares in 2002 and 239,514 Common Shares in 2001 were not included in computing Diluted Earnings per Share because their effects were anti-dilutive.

(2) Stock options convertible into 1,277,834 Common Shares in 2003, 1,792,639 Common Shares in 2002 and 1,381,041 Common Shares in 2001 were not included in computing Diluted Earnings per Share because their effects were anti-dilutive.

| Year Ended December 31, | 2003 (as restated) | 2002 (as restated) | 2001 |
|---|---|---|---|
| Basic Earnings per Share | | | |
| Continuing Operations | **$1.03** | $(16.85) | $(2.97) |
| Discontinued Operations | **(0.03)** | — | (0.41) |
| Cumulative Effect of Accounting Change | **(0.20)** | (0.12) | — |
| | **$0.80** | $(16.97) | $(3.38) |

| Year Ended December 31, | 2003 | 2002 | 2001 |
|---|---|---|---|
| Diluted Earnings per Share | | | |
| Continuing Operations | **$1.02** | $(16.85) | $(2.97) |
| Discontinued Operations | **(0.03)** | — | (0.41) |
| Cumulative Effect of Accounting Change | **(0.20)** | (0.12) | — |
| | **$0.79** | $(16.97) | $(3.38) |

## 4 MARKETABLE EQUITY SECURITIES

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

| December 31, | 2003 | 2002 |
|---|---|---|
| (Dollars in thousands) | | |
| Deutsche Telekom AG | | |
| 131,461,861 ordinary shares | **$2,403,123** | $1,689,285 |
| Vodafone Group Plc | | |
| 12,945,915 American Depositary Receipts | **324,166** | 234,580 |
| VeriSign, Inc. | | |
| 2,361,333 and 2,525,786 common shares | **38,490** | 20,257 |
| Rural Cellular Corporation | | |
| 719,396 equivalent common shares | **5,719** | 611 |
| Other | **912** | 206 |
| Aggregate Fair Value | **2,772,410** | 1,944,939 |
| Accounting Cost Basis | **1,543,932** | 1,545,713 |
| Gross Unrealized Holding Gains (Losses) | **1,228,478** | 399,226 |
| Income Tax (Expense) Benefit | **(479,683)** | (155,794) |
| Unrealized Holding Gains (Losses), net of tax | **748,795** | 243,432 |
| Derivatives, net of tax | **(447,319)** | (50,508) |
| Equity Method Unrealized Gains | **126** | 615 |
| Minority Share of Unrealized Holding (Gains) Losses | **(4,782)** | (1,835) |
| Accumulated Other Comprehensive Income | **$ 296,820** | $ 191,704 |

TDS holds a substantial amount of marketable equity securities that are publicly traded and can have volatile movements in share prices. TDS and its subsidiaries do not make direct investments in publicly traded companies and all of these interests were acquired as a result of sales, trades or reorganization of other assets. The investment in Deutsche Telekom resulted from TDS's sale of its over 80%-owned personal communication 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 investment 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 is the result of a consolidation of several cellular partnerships in which TDS subsidiaries held interests into Rural Cellular, and the distribution of Rural Cellular stock in exchange of these interests. The investment in VeriSign is the result of the acquisition by VeriSign of Illuminet, Inc., a telecommunication entity in which several TDS subsidiaries held interests.

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

## 5 WIRELESS LICENSE COSTS/GOODWILL

Changes in wireless license costs and goodwill are primarily the result of the acquisitions or divestiture of wireless markets and telephone companies by TDS. See Note 12 – Acquisitions, Divestitures and Exchanges for the details on the changes in wireless license costs and goodwill.

Following is a schedule of activity of wireless license costs:

| December 31, | 2003 (as restated) | 2002 (as restated) |
|---|---|---|
| (Dollars in thousands) | | |
| Balance, beginning of year | $1,247,197 | $ 858,792 |
| Restatement under SFAS No. 142 | — | 229,562 |
| Acquisitions(1) | 178,609 | 181,510 |
| Divestitures | (76,905) | — |
| Allocation to assets of operations held for sale | (63,569) | — |
| Impairment loss(2) | (53,095) | (20,921) |
| Other | (874) | (1,746) |
| Balance, end of year(1) | $1,231,363 | $1,247,197 |

(1) Includes $42.0 million of Wireless license rights from the AT&T Wireless transactions.

(2) Upon adoption of SFAS No. 142 on January 1, 2002, TDS recorded a $20.9 million impairment loss on intangible assets related to the wireless license costs. The loss was recorded as a cumulative effect of accounting change. In 2003, TDS recorded an additional impairment loss of $49.6 million on wireless license costs in two reporting units and a $3.5 million loss on impairment of its investment in a non-operating wireless license.

Following is a schedule of activity of goodwill:

| December 31, | 2003 (as restated) | 2002 (as restated) |
|---|---|---|
| (Dollars in thousands) | | |
| Consolidated Beginning Balance | $967,566 | $870,801 |
| U.S. Cellular | | |
| Balance, beginning of year | 504,744 | 473,975 |
| Restatement under SFAS No. 142 | — | (138,885) |
| Acquisitions | 7,516 | 172,263 |
| Divestitures | (69,961) | — |
| Allocation to assets of operations held for sale | (7,565) | — |
| Other | (4,478) | (2,609) |
| Balance, end of year | 430,256 | 504,744 |
| TDS Telecom – ILEC | | |
| Balance, beginning of year | 397,482 | 332,848 |
| Acquisitions | — | 64,231 |
| Other | (141) | 403 |
| Balance, end of year | 397,341 | 397,482 |
| TDS Telecom – CLEC | | |
| Balance, beginning and end of year | 29,440 | 29,440 |
| Other | | |
| Balance, beginning of year | 35,900 | 34,538 |
| Impairment loss | (5,000) | — |
| Other | — | 1,362 |
| Balance, end of year | 30,900 | 35,900 |
| Net Change | (79,629) | 96,765 |
| Consolidated Ending Balance | $887,937 | $967,566 |

Pursuant to SFAS No. 142, Net income (loss) and Basic and Diluted earnings per share adjusted to exclude license and goodwill amortization expense, net of tax, recorded in the year ended December 31, 2001, are summarized below, together with the actual amounts of such measures in 2003 and 2002, for comparison purposes.

| Year Ended December 31, | **2003 (as restated)** | 2002 (as restated) | 2001 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Net Income (Loss) | **$46,608** | $(994,772) | $(198,055) |
| Amortization, net of tax and minority interest effect of | | | |
| License costs | **—** | — | 14,215 |
| Goodwill | **—** | — | 13,788 |
| Goodwill for equity method investments | **—** | — | 1,504 |
| Adjusted Net Income (Loss) | **$46,608** | $(994,772) | $(168,548) |
| Basic Earnings per Share: | | | |
| Net Income (Loss) | **$ 0.80** | $ (16.97) | $ (3.38) |
| Amortization, net of tax and minority interest | **—** | — | 0.50 |
| Adjusted Earnings per Share | **$ 0.80** | $ (16.97) | $ (2.88) |
| Diluted Earnings per Share: | | | |
| Net Income (Loss) | **$ 0.79** | $ (16.97) | $ (3.38) |
| Amortization, net of tax and minority interest | **—** | — | 0.50 |
| Adjusted Earnings per Share | **$ 0.79** | $ (16.97) | $ (2.88) |

## 6 CUSTOMER LISTS

The customer lists, intangible assets from the acquisition of wireless properties, are being amortized based on average customer retention periods using the declining balance method. Amortization expense was $15.6 million and $6.6 million for the years ended December 31, 2003 and 2002, respectively. Amortization expense for the years 2004 through 2008 is expected to be $9.5 million, $5.8 million, $3.5 million, $2.1 million and $1.3 million, respectively.

## 7 INVESTMENTS IN UNCONSOLIDATED ENTITIES

Investments in unconsolidated entities consist of amounts invested in wireless entities in which TDS holds a minority interest. These investments are accounted for using either the equity or cost method, as shown in the following table:

| December 31, | **2003** | 2002 |
|---|---|---|
| (Dollars in thousands) | | |
| Equity method investments: | | |
| Capital contributions, loans and advances | **$ 38,005** | $ 26,619 |
| Goodwill | **23,821** | 30,829 |
| Cumulative share of income | **391,008** | 343,506 |
| Cumulative share of distributions | **(252,492)** | (211,570) |
| | **200,342** | 189,384 |
| Cost method investments: | | |
| Capital contributions, net of partnership contributions and impairments | **5,565** | 6,515 |
| Goodwill | **8,978** | 10,096 |
| | **14,543** | 16,611 |
| Total investments in unconsolidated entities | **$ 214,885** | $ 205,995 |

As of December 31, 2003, TDS followed the equity method of accounting for minority interests where TDS's ownership interest is 20% or greater for corporations or greater than 3% to 5% for partnerships and limited liability companies. This method recognizes, on a current basis, TDS's proportionate share of the income and losses accruing to it under the terms of the respective partnership and shareholder agreements. Income and losses from the entities are reflected in the consolidated statements of operations on a pretax basis as Investment income. Investment income totaled $53.2 million, $43.7 million and $50.6 million in 2003, 2002 and 2001, respectively. As of December 31, 2003, TDS followed the cost method of accounting for its investments where TDS's ownership interest is less than 20% for corporations or 3% to 5% for partnerships and limited liability companies, or where TDS does not have the ability to exercise significant influence.

Investments in unconsolidated entities include goodwill and costs in excess of the underlying book value of certain investments. At December 31, 2003, $182.1 million represented the investment in underlying equity and $32.8 million represented goodwill. At December 31, 2002, $165.1 million represented the investment in underlying equity and $40.9 million represented goodwill. In 2001, goodwill related to investments for which TDS follows the equity method of accounting were being amortized over 40 years. TDS adopted SFAS No. 142 on January 1, 2002, and no longer amortizes its goodwill related to equity method investments. Amortization expense amounted to $1.3 million in 2001.

During 2003, TDS reduced the carrying value of one of its cost method investments by $1.7 million. This charge was included in Loss on marketable equity securities and other investments on the statements of operations.

During 2002, TDS reduced the carrying value of two wireless minority investments. TDS withdrew from one partnership and reduced the carrying value by $25.4 million to $5.1 million, the amount TDS received from the partnership as a result of the withdrawal. TDS reduced the carrying amount of another minority interest by $7.3 million to estimated fair value based on a cash flow analysis. These charges, aggregating $32.7 million, were included in Loss on marketable equity securities and other investments on the statements of operations.

TDS's more significant investments in unconsolidated entities consist of the following:

| | Percentage Ownership | |
|---|---|---|
| December 31, | **2003** | 2002 |
| Cellular investments | | |
| Los Angeles SMSA Limited Partnership | **5.5%** | 5.5% |
| Volcano Communications Company | **45.0%** | 45.0% |
| Raleigh-Durham MSA Limited Partnership | **8.0%** | 8.0% |
| Midwest Wireless Communications, LLC | **15.7%** | 15.7% |
| North Carolina RSA 1 Partnership | **50.0%** | 50.0% |
| Oklahoma City SMSA Limited Partnership | **14.6%** | 14.6% |

Based primarily on data furnished to TDS by third parties, the following summarizes the combined assets, liabilities and equity, and the combined results of operations of the entities for which TDS's investments are accounted for by the equity method.

| December 31, | **2003** | 2002 |
|---|---|---|
| (Dollars in thousands) | | |
| Assets | | |
| Current | **$ 252,000** | $ 240,000 |
| Due from affiliates | **522,000** | 249,000 |
| Property and other | **1,674,000** | 1,558,000 |
| | **$2,448,000** | $2,047,000 |
| Liabilities and Equity | | |
| Current liabilities | **$ 185,000** | $ 176,000 |
| Due to affiliates | **—** | 3,000 |
| Deferred credits | **86,000** | 90,000 |
| Long-term debt | **33,000** | 37,000 |
| Partners' capital and stockholders' equity | **2,144,000** | 1,741,000 |
| | **$2,448,000** | $2,047,000 |

| Year Ended December 31, | **2003** | 2002 | 2001 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Results of Operations | | | |
| Revenues | **$2,509,000** | $2,184,000 | $2,107,000 |
| Costs and expenses | **1,854,000** | 1,699,000 | 1,504,000 |
| Operating Income | **655,000** | 485,000 | 603,000 |
| Other income (expense) | **12,000** | 18,000 | (1,000) |
| Interest expense | **(2,000)** | (2,000) | (4,000) |
| Income taxes | **(5,000)** | (2,000) | (5,000) |
| Net income | **$ 660,000** | $ 499,000 | $ 593,000 |

## 8 NOTES RECEIVABLE

Included in Notes Receivable is a loan of $55.1 million to Airadigm Communications, Inc., related to the funding of Airadigm's operations. The value of the note was directly related to the values of certain assets and contractual rights of Airadigm. As a result of changes in business strategies and other events, in 2002 management reviewed the Airadigm business plan and reviewed the fair market value of the wireless markets, including a third party fair value analysis, and concluded that the notes receivable were impaired. TDS recorded valuation allowances against the Airadigm notes receivable reducing the carrying value by $55.1 million to zero and charged $1.1 million of capitalized cost to expense.

## 9 PROPERTY, PLANT AND EQUIPMENT

### *U.S. Cellular*

U.S. Cellular's property, plant and equipment consists of the following:

| December 31, | **2003** | 2002 |
|---|---|---|
| (Dollars in thousands) | | |
| Cell site-related equipment | **$1,777,251** | $1,664,154 |
| Land, buildings and leasehold improvements | **621,070** | 552,087 |
| Switching-related equipment | **460,165** | 399,086 |
| Office furniture and equipment | **203,139** | 183,285 |
| Systems development | **212,043** | 201,967 |
| Other operating equipment | **127,542** | 113,975 |
| Work in process | **252,010** | 172,996 |
| | **3,653,220** | 3,287,550 |
| Accumulated depreciation | **1,381,966** | 1,139,118 |
| | **$2,271,254** | $2,148,432 |

Useful lives range from four to twenty-five years for cell site-related equipment, ten to twenty years for buildings and leasehold improvements, three to eight years for switching-related equipment, three to five years for office furniture and equipment, three to seven years for systems development, and ten years for other operating equipment. Depreciation expense totaled $374.8 million, $312.0 million and $237.3 million in 2003, 2002 and 2001, respectively.

### *TDS Telecom*

TDS Telecom's property, plant and equipment consists of the following:

| December 31, | 2003 | 2002 |
|---|---|---|
| (Dollars in thousands) | | |
| Incumbent Local Exchange Operations | | |
| Cable and wire | **$1,052,964** | $1,015,701 |
| Central office equipment | **606,894** | 584,137 |
| Office furniture and equipment | **109,844** | 122,092 |
| Systems development | **110,359** | 77,352 |
| Land and buildings | **82,799** | 83,549 |
| Other equipment | **64,502** | 63,318 |
| Work in process | **37,344** | 23,057 |
| | **2,064,706** | 1,969,206 |
| Accumulated depreciation | **1,173,429** | 1,119,016 |
| | **891,277** | 850,190 |
| Competitive Local Exchange Operations | | |
| Cable and wire | **74,082** | 67,062 |
| Central office equipment | **165,849** | 144,293 |
| Office furniture and equipment | **37,126** | 36,182 |
| Systems development | **11,296** | 7,572 |
| Land and buildings | **475** | 476 |
| Other equipment | **5,107** | 4,779 |
| Work in process | **3,458** | 10,132 |
| | **297,393** | 270,496 |
| Accumulated depreciation | **108,938** | 72,875 |
| | **188,455** | 197,621 |
| Total | **$1,079,732** | $1,047,811 |

Useful lives of incumbent local exchange property range from fifteen to twenty years for cable and wire, eight to twelve years for central office equipment, five to ten years for office furniture and equipment, five to seven years for systems development and ten to fifteen years for other equipment. Buildings are depreciated over thirty years. The provision for depreciation as a percentage of depreciable property was 6.6% in 2003, 6.2% in 2002 and 7.2% in 2001. Depreciation expense totaled $127.7 million, $128.0 million and $123.7 million in 2003, 2002 and 2001, respectively.

Useful lives of competitive local exchange property range from fifteen to twenty years for cable and wire, eight to twelve years for central office equipment, five to ten years for office furniture and equipment, five to seven years for systems development and ten to fifteen years for other equipment. Buildings are depreciated over thirty years. The provision for depreciation as a percentage of depreciable property was 9.0% in 2003, 12.7% in 2002 and 12.9% in 2001. Depreciation expense totaled $31.2 million, $28.9 million and $17.3 million in 2003, 2002 and 2001, respectively.

In accordance with SFAS No. 144 "Accounting for the Impairments or Disposal of Long-Lived Assets," TDS recorded a write-down of plant assets totaling $0.4 million in the incumbent local exchange operation and a write-down of $4.6 million in the competitive local exchange operations in 2003, of which $3.3 million related to plant assets.

## 10 OPERATIONS HELD FOR SALE

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 Services, Inc. for $95 million in cash plus a working capital adjustment, subject to certain closing provisions. The U.S. Cellular markets to be sold to AT&T Wireless include 25 MHz Metropolitan Statistical Area and Rural Service Area licenses representing 1.3 million population equivalents, approximately 150 cell sites and 76,000 customers. The transaction is subject to regulatory approvals. The closing of the sale is expected to occur in the first quarter of 2004. Total revenues from the markets to be sold totaled $60.6 million for 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 is being accounted for in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." The balance sheet as of December 31, 2003 reflects assets and liabilities of the wireless properties to be sold as assets and liabilities of operations held for sale from the date of the sale agreement until the close of the transaction. The revenues and expenses of the markets continue to be included in operations until the completion of the sale.

The following table summarizes the recorded value of the assets and liabilities of the markets that TDS will be transferring.

| | December 31, 2003 |
|---|---|
| (Dollars in thousands) | |
| Current assets | **$ 5,363** |
| Property, plant and equipment, net | **45,710** |
| Other assets | **316** |
| Wireless licenses cost | **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** |

U.S. Cellular has recorded a loss of $22.0 million as a "Loss on assets held for sale" (included in operating expenses) representing the differences between the carrying value of the markets to be sold to AT&T Wireless and the cash to be received in the transaction.

## 11 SUPPLEMENTAL CASH FLOW DISCLOSURES

Following are supplemental cash flow disclosures for interest and income taxes paid and certain noncash transactions.

| Year Ended December 31, | 2003 | 2002 | 2001 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Interest paid | **$143,159** | $112,062 | $ 91,629 |
| Income taxes paid (refund received) | **(53,112)** | 61,896 | 220,163 |
| Noncash interest expense | **28,099** | 12,675 | 12,721 |
| Common Shares issued for conversion of Preferred Shares | **2,940** | 122 | 250 |
| Conversion of debt for Common Shares of U.S. Cellular | **—** | — | 29,642 |
| Notes issued for the Chicago acquisition | **$ —** | $175,000 | $ — |

## 12 ACQUISITIONS, DIVESTITURES AND EXCHANGES

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 that it believes will add value to the business.

Cash expenditures for acquisitions, net of cash acquired, aggregated $5.1 million in 2003, $531.2 million in 2002 and $392.8 million in 2001.

### *2003 Activity*

During 2003, U.S. Cellular completed an exchange with AT&T Wireless along with the acquisition of two minority interests.

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 $34.0 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. The assignment and development of certain licenses has been deferred by U.S. Cellular for a period of up to five years from the closing date, in accordance with the agreement. U.S. Cellular will take possession of the licenses in staggered closings over that five-year period to comply with service requirements of the Federal Communications Commission. The acquisition of the licenses in the exchange was accounted for as a purchase by U.S. Cellular and the transfer of the properties by U.S. Cellular to AT&T Wireless was accounted for as a sale. TDS capitalized $2.8 million of costs associated with the AT&T Wireless transaction.

The 15 licenses that have been transferred to U.S. Cellular as of December 31, 2003, with a fair value totaling $136.6 million, are included in Wireless license costs on the balance sheet. The 21 licenses that have not yet been assigned to U.S. Cellular, with a fair value totaling $42.0 million, are included in Wireless license rights on the balance sheet. All asset values related to the properties acquired or pending, including license values, were determined using an independent valuation. TDS has included the results of operations in the Florida and Georgia markets in the statement of operations until the date of the transfer, August 1, 2003.

Prior to the close of the AT&T Wireless exchange, U.S. Cellular allocated $70.0 million of goodwill related to the properties transferred to AT&T Wireless to Assets of operations held for sale in accordance with SFAS No. 142 “Goodwill and Other Intangible Assets.” A loss of $23.9 million was recorded as a “Loss on assets held for sale” (included in operating expenses) representing the difference between the book value of the markets transferred to AT&T Wireless and the fair value of the assets received or to be received in this transaction.

The following table summarizes the estimated fair values of the AT&T Wireless licenses received and the recorded value of the Florida and Georgia assets and liabilities transferred to AT&T Wireless from U.S. Cellular.

| | August 1, 2003 (as restated) |
|---|---|
| (Dollars in thousands) | |
| Current assets | **$ (12,785)** |
| Property, plant and equipment | **(88,314)** |
| Wireless licenses transferred | **(76,905)** |
| Wireless licenses received | **136,571** |
| Wireless license rights | **42,037** |
| Goodwill | **(69,961)** |
| Minority interests acquired | **3,000** |
| Other assets and liabilities | **(717)** |
| Current liabilities | **9,213** |
| Loss recorded on transfer | **23,908** |
| Cash received | **$ (33,953)** |

In addition, in 2003, U.S. Cellular acquired the minority interest in two entities which held wireless licenses for $2.3 million.

In aggregate, the 2003 acquisitions, divestitures and exchanges increased wireless license costs by $59.7 million, wireless license rights by $42.0 million and reduced U.S. Cellular goodwill by $70.0 million.

### *2002 Activity*

On August 7, 2002, U.S. Cellular completed the acquisition of the assets and certain liabilities of Chicago 20 MHz, LLC, now known as United States Cellular Operating Company of Chicago, LLC (“USCOC of Chicago” or the “Chicago market”) from PrimeCo Wireless Communications LLC (“PrimeCo”). 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 PCS license in the Chicago major trading area (excluding Kenosha County, WI) covering 13.2 million population equivalents.

The purchase price was $617.8 million including working capital and other adjustments. U.S. Cellular financed the purchase using $327.3 million of revolving lines of credit, $175.0 million in 30 year notes issued to PrimeCo, a $105.0 million loan from TDS and a $10.5 million accrued payable. TDS has included the USCOC of Chicago results of operations in the statements of operations subsequent to the purchase date.

The tangible fixed assets were valued at net book value. The PCS licenses were valued at $163.5 million. The customer list was assigned a value of $43.4 million and is being amortized based on a 30 month average customer retention period using the declining balance method.

Total goodwill attributed to the Chicago acquisition aggregated $168.4 million. In January 2003, U.S. Cellular repurchased the $45.2 million 9% Series A Notes that remained outstanding at December 31, 2002, at 90% of face value. The $4.5 million gain on retirement of the 9% Series A Notes was credited to goodwill, reducing the aggregate goodwill attributed to the Chicago acquisition to $163.9 million. Such goodwill is deductible for tax purposes and will be amortized over 15 years for tax purposes.

The following table summarizes the estimated fair values of the PrimeCo assets acquired and liabilities assumed at the date of acquisition.

| (Dollars in thousands) | August 7, 2002 |
|---|---|
| Current assets, excluding $6,984 cash acquired | $ 34,081 |
| Property, plant and equipment | 235,953 |
| Other assets | 815 |
| Customer list | 43,400 |
| Wireless licenses | 163,500 |
| Goodwill | 168,436 |
| Total assets acquired | 646,185 |
| Current liabilities | (22,518) |
| Non-current liabilities | (1,300) |
| Total liabilities acquired | (23,818) |
| Net assets purchased | 622,367 |
| Notes issued to PrimeCo | (175,000) |
| Accrued but unpaid items | (15,500) |
| Cash required | $ 431,867 |

In addition, TDS acquired two incumbent local telephone companies, three additional personal communication service licenses and additional minority interests in majority-owned markets during 2002. In conjunction with these acquisitions, the following assets were acquired and liabilities assumed. The goodwill acquired in these acquisitions is not deductible for tax purposes.

| (Dollars in thousands) | 2002 |
|---|---|
| Current assets, excluding $3,366 cash acquired | $ 6,454 |
| Property, plant and equipment | 24,640 |
| Wireless licenses | 18,010 |
| Goodwill – U.S. Cellular | 3,827 |
| Goodwill – TDS Telecom | 64,231 |
| Other assets | 2,068 |
| Current liabilities | (5,450) |
| Long-term debt | (9,767) |
| Deferred credits | (3,080) |
| Other liabilities | (1,627) |
| Cash required | $99,306 |

In aggregate, the 2002 acquisitions increased wireless license costs by $181.5 million, U.S. Cellular goodwill by $172.3 million and TDS Telecom's incumbent local exchange carrier goodwill by $64.2 million.

### *2001 Activity*

On September 4, 2001, TDS acquired 100 percent of the outstanding common shares of Chorus Communications Group, Ltd. The aggregate purchase price was $202.8 million in cash, excluding cash acquired. The results of Chorus' operations are included in the consolidated financial statements since the date of acquisition. Chorus was a telecommunications company providing wireline telephone service and Internet access to customers primarily in Wisconsin. Other operations acquired from Chorus include selling, installing and servicing business telephone and videoconferencing systems, data networks, Internet access and long-distance.

The following table summarizes the estimated fair values of the Chorus assets acquired and liabilities assumed at the date of acquisition.

| (Dollars in thousands) | September 4, 2001 |
|---|---|
| Current assets, excluding $9,800 cash acquired | $ 9,089 |
| Property, plant and equipment | 55,170 |
| Investment in unconsolidated entities | 23,000 |
| Other assets | 5,445 |
| Goodwill | 149,969 |
| Total assets acquired | 242,673 |
| Current liabilities | (26,546) |
| Non-current liabilities | (7,307) |
| Long-term debt | (5,997) |
| Total liabilities assumed | (39,850) |
| Cash required | $202,823 |

The goodwill was assigned to the incumbent local exchange carrier segment ($127.8 million) and to the competitive local exchange carrier segment ($22.2 million). None of the goodwill is deductible for tax purposes.

In addition, during 2001 TDS acquired 100 percent of an operating cellular market for $56.2 million in cash, certain personal communication service licenses for $124.1 million in cash and a small incumbent local telephone carrier and certain other assets for $9.7 million in cash and $1.1 million of deferred cash payments.

In aggregate, the 2001 acquisitions increased wireless license costs by $112.1 million; U.S. Cellular goodwill by $53.6 million; TDS Telecom's incumbent local exchange carrier and competitive local exchange carrier goodwill by $129.2 million and $22.2 million, respectively; and investments in unconsolidated entities by $23.0 million.

### *Pro Forma Operations*

Assuming the exchanges and acquisitions accounted for as purchases during the period January 1, 2002 to December 31, 2003, had taken place on January 1, 2002; and the acquisitions during the period January 1, 2001 to December 31, 2001, had taken place on January 1, 2001, unaudited pro forma results of operations would have been as follows:

| Year Ended December 31, | 2003 (as restated) | 2002 (as restated) | 2001 |
|---|---|---|---|
| (Unaudited, dollars in thousands, except per share amounts) | | | |
| Operating revenues | $3,348,927 | $ 3,003,365 | $2,630,793 |
| Income (loss) from continuing operations | 56,093 | (1,026,478) | (184,120) |
| Net income (loss) | 42,697 | (1,033,512) | (208,212) |
| Earnings per share – basic | 0.73 | (17.17) | (3.47) |
| Earnings per share – diluted | $ 0.72 | $ (17.17) | $ (3.47) |

## 13 LOSS ON MARKETABLE EQUITY SECURITIES AND OTHER INVESTMENTS

| Year Ended December 31, | 2003 | 2002 | 2001 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Impairment of unconsolidated interests | $(10,200) | $ (32,716) | $ — |
| Marketable equity securities other than temporary losses | — | (1,757,471) | — |
| Notes receivable impairment | — | (93,978) | — |
| Other | — | (4,226) | 487 |
| Deutsche Telekom/ VoiceStream merger | — | — | (644,929) |
| VeriSign/Illuminet merger | — | — | 96,137 |
| | $(10,200) | $(1,888,391) | $(548,305) |

In 2003, U.S. Cellular recorded a license cost impairment loss of $3.5 million related to the investment in the non-operating market in Florida that remained with U.S. Cellular upon completion of the exchange with AT&T Wireless. See Note 12 – Acquisitions, Divestitures and Exchanges for further information regarding the exchange transaction with AT&T Wireless.

In 2003, U.S. Cellular reduced the carrying value of one of its cost method investments by $1.7 million to its underlying equity value based on a cash flow analysis.

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

In 2002, management determined that a decline in the value of marketable equity securities relative to their respective accounting cost basis was other than temporary and charged an aggregate $1,757.5 million loss to the statement of operations and reduced the accounting cost basis of such marketable equity securities by a corresponding amount.

TDS had certain notes receivable from Airadigm Communications, Inc. ("Airadigm") and Kington Management Corporation ("Kington"). During 2002, management concluded that the notes receivable were impaired, and accordingly, recorded a $54.8 million valuation allowance and an additional $0.3 million expense included in Other income (expense), net, to reduce the Airadigm note receivable carrying value to zero, charged $1.1 million of capitalized costs to expense and reduced the Kington note receivable carrying value by $38.1 million to net realizable value.

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 to the write-down of a wireless investment to fair value and $4.2 million to the reduction in value of a land purchase option.

In 2001, TDS received $570.0 million in cash and recognized a $644.9 million loss as a result of the VoiceStream Wireless Corporation merger with Deutsche Telekom AG and recognized a $96.1 million gain as a result of the VeriSign, Inc. acquisition of Illuminet Holdings, 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. TDS received a final bankruptcy settlement totaling $0.5 million in 2001.

## 14 NOTES PAYABLE

TDS has used short-term debt to finance acquisitions, for general corporate purposes and to repurchase common shares. Proceeds from the sale of long-term debt from time to time have been used to reduce such short-term debt. Proceeds from the sale of non-strategic wireless and other investments from time to time have also been used to reduce short-term debt.

TDS had a $600 million revolving credit facility with a group of banks at December 31, 2003, and had $3.2 million of letters of credit outstanding against the revolving credit facility leaving $596.8 million available for use. The terms of the revolving credit facility provide for borrowings with interest at the London InterBank Offered Rate ("LIBOR") plus a margin percentage based on TDS's credit rating. At December 31, 2003, the margin percentage was 30 basis points (for a rate of 1.42% based on the one month LIBOR rate at December 31, 2003). The margin percentage increases by 10 basis points if more than 50% of the facility is outstanding. Interest and principal are due the last day of the borrowing period, as selected by TDS, of either seven days or one, two, three or six months. TDS pays facility and administration fees at an aggregate annual rate of 0.11% of the total $600 million facility. These fees totaled $658,000, $697,000 and $406,000 for the years ended December 31, 2003, 2002 and 2001, respectively. The credit facility expires in January 2007.

TDS also had $75 million in direct bank lines of credit at December 31, 2003, all of which were unused. The terms of the direct bank lines of credit provide for borrowings at negotiated rates up to the prime rate.

On December 19, 2003, U.S. Cellular amended its $325 million revolving credit facility with a group of banks to increase the size of the facility to $700 million. At December 31, 2003, $0.2 million of letters of credit were outstanding against this facility leaving $699.8 million available for use. The terms of the credit facility provide for borrowings with interest at the LIBOR rate plus a margin percentage based on U.S. Cellular's credit rating. At December 31, 2003, the margin percentage was 55 basis points (for a rate of 1.67% based on the one month LIBOR rate at December 31, 2003). Interest and principal are due the last day of the borrowing period, as selected by U.S. Cellular, of either seven days or one, two, three or six months. U.S. Cellular pays facility and administration fees at an aggregate annual rate of 0.21% of the total facility. These payments totaled $732,000 in 2003 and $484,000 in 2002. The credit facility expires in June 2007.

At December 31, 2002, and up until December 23, 2003, U.S. Cellular had a $500 million revolving credit facility with a group of banks. This credit facility was terminated on December 23, 2003 in connection with the amendment of U.S. Cellular's $325 million credit facility to $700 million. The terms of the credit facility provided for borrowings with interest at the LIBOR rate plus a margin percentage based on U.S. Cellular's credit rating. Interest and principal were due the last day of the borrowing period, as selected by U.S. Cellular, of either seven days or one, two, three or six months. U.S. Cellular paid facility and administration fees at an aggregated annual rate of 0.10% of the total $500 million facility. These payments totaled $516,000, $515,000 and $698,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Information concerning notes payable is shown in the table that follows:

| Year Ended December 31, | **2003** | 2002 |
|---|---|---|
| (Dollars in thousands) | | |
| Balance at end of year | **$ —** | $461,792 |
| Weighted average interest rate at end of year | **—%** | 1.7% |
| Maximum amount outstanding during the year | **$627,892** | $483,442 |
| Average amount outstanding during the year(1) | **$491,960** | $276,283 |
| Weighted average interest rate during the year(1) | **1.5%** | 2.0% |

(1) The average was computed based on month-end balances.

The financial covenants associated with TDS's lines of credit require that TDS maintain certain debt to capital and interest coverage ratios. In addition, the financial covenants associated with lines of credit of certain subsidiaries require that these subsidiaries maintain certain debt to capital and interest coverage ratios. The covenants prescribe certain terms associated with intercompany loans from TDS to certain subsidiaries.

The restatements discussed in Note 1 – Summary of Significant Accounting Policies 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.

## 15 LONG-TERM DEBT

Long-term debt is as follows:

| December 31, | 2003 | 2002 |
|---|---|---|
| (Dollars in thousands) | | |
| Telephone and Data Systems, Inc. (Parent) | | |
| 7.6% Series A Notes, due in 2041 | **$ 500,000** | $ 500,000 |
| Medium-term notes, averaging 9.8%, 9.25% to 10.0% due 2021–2025 | **52,200** | 122,700 |
| 7.0% Notes, maturing in 2006 | **200,000** | 200,000 |
| Purchase contracts, averaging 6.0%, due through 2021 | **1,097** | 1,177 |
| Total Parent | **753,297** | 823,877 |
| Subsidiaries | | |
| U.S. Cellular | | |
| 6% zero coupon convertible redeemable debentures (Liquid Yield Option Notes), maturing in 2015 | **310,749** | 310,749 |
| Unamortized discount | **(153,090)** | (162,145) |
| | **157,659** | 148,604 |
| 6.7% Senior Notes maturing in 2033 | **444,000** | — |
| Unamortized discount | **(7,171)** | — |
| | **436,829** | — |
| 7.25% Notes, maturing in 2007 | **250,000** | 250,000 |
| 8.75% Senior Notes, maturing in 2032 | **130,000** | 130,000 |
| 9% Series A Notes, repurchased in 2003 | **—** | 45,200 |
| Other, 9.0% due 2004–2009 | **13,000** | 13,000 |
| TDS Telecom | | |
| Rural Utilities Service, Rural Telephone Bank and Federal Financing Bank Mortgage Notes, various rates averaging 5.6% in 2003 and 5.5% in 2002, due through 2035 | **251,697** | 266,234 |
| Other long-term notes, various rates averaging 6.8% in 2003 and 7.6% in 2002, due through 2006 | **12,326** | 14,692 |
| Other Subsidiaries | | |
| Long-term notes and leases, 6.8% to 7.8%, due through 2009 | **13,817** | 14,499 |
| Total Subsidiaries | **1,265,328** | 882,229 |
| Total Long-term debt | **2,018,625** | 1,706,106 |
| Less: Current portion of long-term debt | **23,712** | 64,482 |
| Total Long-term debt, excluding current portion | **$1,994,913** | $1,641,624 |

### *Telephone and Data Systems, Inc. (Parent)*

The unsecured 7.6% Series A Notes are due in 2041. Interest is payable quarterly. The notes are redeemable by TDS beginning December 2006 at 100% of the principal amount plus accrued and unpaid interest.

The unsecured Medium-term Notes mature at various times from 2021 to 2025. Interest is payable semi-annually. The Medium-term Notes may be redeemed by TDS at par value plus accrued but unpaid interest. As of December 31, 2003, Medium-term Notes aggregating $17.2 million and $35.0 million have initial redemption dates in 2005 and 2006, respectively. TDS redeemed Medium-term Notes aggregating $70.5 million in 2003, $51.0 million in 2002 and $65.5 million in 2001. A loss of $0.8 million was recorded on the repurchase and retirement of $5.0 million of Medium-term Notes in 2003. The remaining Medium-term Notes redeemed in 2003, 2002 and 2001 were redeemed at par value.

The unsecured 7.0% Notes are due August 2006. Interest is payable semi-annually. The notes are redeemable at any time at the option of TDS, 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 0.25%.

### *Subsidiaries – U.S. Cellular*

U.S. Cellular's unsecured 6% yield to maturity zero coupon convertible redeemable notes, also known as Liquid Yield Option Notes, are due in 2015. There is no periodic payment of interest. Each note is convertible at the option of the holder at any time at a conversion rate of 9.475 U.S. Cellular Common Shares per $1,000 of notes. Upon notice of conversion, U.S. Cellular may elect to deliver its Common Shares or cash equal to the market value of the Common Shares. U.S. Cellular may redeem the notes for cash at the issue price plus accrued original issue discount through the date of redemption. Holders have the right to exercise their conversion option prior to the redemption date. There were no conversions of Liquid Yield Option Notes in 2003 and 2002. During 2001, holders converted $55.1 million carrying value of Liquid Yield Option Notes. U.S. Cellular delivered $32.0 million in cash and 644,000 U.S. Cellular Common Shares for these conversions. The Liquid Yield Option Notes converted for cash resulted in a loss of $7.0 million in 2001, reported as (Loss) on debt extinguishment in the statements of operations.

In December 2003, U.S. Cellular sold $444 million of unsecured 6.7% Senior Notes due December 15, 2033 priced to yield 6.83% to maturity. Interest is paid semi-annually. 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 0.30%. The proceeds were used to repay all outstanding short-term debt.

U.S. Cellular's unsecured 7.25% Senior Notes are due 2007 and interest is payable semi-annually. U.S. Cellular may redeem the notes beginning August 15, 2004 at the principal amount plus accrued interest.

In November 2002, U.S. Cellular sold $130.0 million of unsecured 8.75% Senior Notes due in November 2032. Interest is paid quarterly. U.S. Cellular may redeem the notes beginning in 2007 at the principal amount plus accrued interest. The $129.8 million net proceeds from the sale of the notes (after reimbursement of costs) were used to purchase a portion of the 9% Series A Notes.

U.S. Cellular issued $175.0 million of unsecured 9% Series A Notes due 2032 to PrimeCo in connection with the acquisition of the Chicago market on August 7, 2002. Interest was payable quarterly. The notes were callable by U.S. Cellular after five years at the principal amount plus accrued but unpaid interest. U.S. Cellular repurchased $129.8 million of the 9% Series A Notes in 2002. U.S. Cellular repurchased the remaining $45.2 million 9% Series A Notes in January 2003 using funds from the revolving credit facility.

### *Subsidiaries – TDS Telecom*

TDS Telecom's Rural Utilities Service, Rural Telephone Bank and Federal Financing Bank Mortgage Notes issued under certain loan agreements with the Rural Utilities Service, Rural Telephone Bank and Federal Financing Bank, agencies of the United States of America, are to be repaid in equal monthly or quarterly installments covering principal and interest beginning six months to three years after dates of issue and expiring through 2035. Substantially all telephone plant of the incumbent local exchange companies is pledged under Rural Utilities Service and Rural Telephone Bank mortgage notes and various other obligations of the telephone subsidiaries.

### *Consolidated*

The annual requirements for principal payments on long-term debt, excluding amounts due on the forward contracts, are approximately $23.7 million, $22.1 million, $223.9 million, $275.1 million and $21.2 million for the years 2004 through 2008, respectively.

The covenants associated with TDS's long-term debt obligations, among other things, restrict TDS's ability, subject to certain exclusions, to incur additional liens; enter into sale and leaseback transactions; and sell, consolidate, or merge assets. As of December 31, 2003, TDS was in compliance with all of the covenants of its debt obligations.

In addition, the covenants associated with long-term debt obligations of certain subsidiaries of TDS, among other things, restrict these subsidiaries' ability, subject to certain exclusions, to incur additional liens; enter into sale and leaseback transactions; sell, consolidate, or merge assets, and pay dividends. As of December 31, 2003, TDS's subsidiaries were in compliance with all of the covenants of their debt obligations.

### *Prepaid Forward Contracts*

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. During 2002, TDS entered into variable forward contracts in connection with its Deutsche Telekom, Vodafone and VeriSign marketable equity securities with proceeds aggregating $1,631.8 million. The principal amount of the forward contracts was accounted for as a loan. The collar portions of the forward contracts are accounted for as derivative instruments. Option premiums paid were initially recorded as a derivative asset and option premiums received were initially recorded as a derivative liability. The following table summarizes certain facts surrounding the contracted securities, pledged as collateral for the forward contracts.

| December 31, | | **2003** | 2002 |
|---|---|---|---|
| Security | Shares | Loan Amount | |
| (Dollars in thousands) | | | |
| Deutsche Telekom | 131,461,861 | **$1,532,257** | $1,532,257 |
| Unamortized debt discount | | **(78,177)** | (93,469) |
| | | **1,454,080** | 1,438,788 |
| Vodafone | 12,945,915 | **201,038** | 201,038 |
| VeriSign | 2,361,333 | **20,819** | 20,819 |
| Unamortized debt discount | | **(3,175)** | (4,029) |
| | | **17,644** | 16,790 |
| | | **$1,672,762** | $1,656,616 |

The Deutsche Telekom forward contracts mature from May 2007 to August 2008. Contracts aggregating $1,094.3 million require quarterly interest payments at LIBOR plus 50 basis points (for a rate of 1.65% based on the three month LIBOR rate at December 31, 2003). Contracts aggregating $438.0 million are structured as zero coupon obligations with a weighted average effective interest rate of 4.4% per year. No interest payments are required for the zero coupon obligations during the contract period.

The Vodafone forward contracts mature in May and November 2007. The Vodafone forward contracts require quarterly interest payments at LIBOR plus 50 basis points (for a rate of 1.65% based on the three month LIBOR rate at December 31, 2003).

The VeriSign forward contract matures in May 2007 and is structured as a zero coupon obligation with an effective interest rate of 5.0% per year. TDS is not required to make interest payments during the contract period.

Forward contracts aggregating $738.7 million and $1,015.4 million mature in 2007 and 2008, respectively.

The restatements discussed in Note 1 – Summary of Significant Accounting Policies 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.

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 accounting 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 select 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. 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 by its consolidated subsidiaries upon settlement of the contracts.

## 16 FINANCIAL INSTRUMENTS AND DERIVATIVES

### *Financial Instruments*

Financial instruments are as follows:

| December 31, | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Book Value** | **Fair Value** | Book Value | Fair Value |
| (Dollars in thousands) | | | | |
| Cash and Cash Equivalents | **$ 937,651** | **$ 937,651** | $1,298,936 | $1,298,936 |
| Notes Payable | **—** | **—** | 461,792 | 461,792 |
| Long-term Debt, including current portion | **2,018,625** | **2,114,158** | 1,706,106 | 1,684,407 |
| Prepaid Forward Contracts | **1,672,762** | **1,665,743** | 1,656,616 | 1,648,900 |
| Company-obligated Mandatorily Redeemable Preferred Securities | **—** | **—** | 300,000 | 296,700 |
| Preferred Shares | **$ 3,864** | **$ 3,151** | $ 6,954 | $ 4,978 |

The carrying amounts of cash and cash equivalents and notes payable approximate fair value due to the short-term nature of these financial instruments. The fair value of TDS's long-term debt was estimated using market prices for the 7.6% Series A Notes, the 6% zero coupon convertible debentures and the 8.75% Senior Notes, and discounted cash flow analysis for the remaining debt. The fair value of the debt component of TDS's prepaid forward contracts was determined using discounted cash flow analysis. The fair value of the debt component of Company-Obligated Mandatorily Redeemable Preferred Securities was determined using the market prices of the securities. The fair value of TDS's Preferred Shares was estimated using discounted cash flow analysis.

### *Derivatives*

During 2002, subsidiaries of TDS entered into forward contracts in connection with its Deutsche Telekom, Vodafone and VeriSign marketable equity securities. The principal amount of the forward contracts is accounted for as a loan. The collar portions of the forward contracts are accounted for as derivative instruments. The following table summarizes the shares contracted and the downside limit and upside potential.

| December 31, 2003<br>Security | Shares | Downside Limit (Floor) | Upside Potential (Ceiling) |
|---|---|---|---|
| VeriSign | 2,361,333 | $ 8.82 | $11.46 |
| Vodafone | 12,945,915 | $15.07–$16.07 | $20.60–$23.20 |
| Deutsche Telekom | 131,461,861 | $10.74–$12.41 | $13.71–$16.33 |

The forward contracts for the forecasted transactions and hedged items are designated as cash flow or fair value hedges and recorded as assets or liabilities on the balance sheet at their fair value. The fair value of the derivative instruments is determined using the Black-Scholes model.

The Deutsche Telekom and Vodafone forward contracts are designated as cash flow hedges, where changes in the forward contract's fair value are recognized in Accumulated other comprehensive income until they are recognized in earnings when the forward contract is settled. If the delivery of the contracted shares does not occur, or it becomes probable that it will not occur, the gain or loss on the related cash flow hedge is recognized in earnings at that time. No components of the forward contracts are excluded in the measurement of hedge effectiveness for the cash flow hedges. The critical terms of the forward contracts are the same as the underlying forecasted transactions; therefore, changes in the fair value of the forward contracts are anticipated to be effective in offsetting changes in the expected cash flows from the forecasted transactions. No gains or losses related to ineffectiveness of cash flow hedges were recognized in earnings for the years ended December 31, 2003 and 2002.

With regard to the forward contracts on the Vodafone shares and the Deutsche Telekom shares, transactions being accounted for as cash flow hedges, management has evaluated the expected timing of the hedged forecasted transactions to deliver the underlying shares to settle the forward contracts, and believes that these forecasted transactions are probable of occurring in the periods specified in the related hedge documentation or within an additional two-month period of time thereafter.

The VeriSign forward contract is designated as a fair value hedge, where effectiveness of the hedge is assessed based upon the intrinsic value of the underlying options. The intrinsic value of the forward contract is defined as the difference between the applicable option strike price and the market value of the contracted shares on the balance sheet date. Changes in the intrinsic value of the options are expected to be perfectly effective at offsetting changes in the fair value of the hedged item. Changes in the intrinsic value of the options are recognized in Accumulated other comprehensive income until they are recognized in earnings when the forward contract is settled. Changes in the time value of the options are excluded from the effectiveness assessment and are recognized in earnings each period. Changes in the time value of the options aggregating $3.5 million loss and $1.3 million gain for the years ended December 31, 2003 and 2002, respectively, were included in the statements of operations caption Other income (expense).

At December 31, 2003, TDS reported a derivative liability of $712.3 million included in the balance sheet caption Deferred Liabilities and Credits.

At December 31, 2002, TDS reported a derivative asset of $2.6 million, included in the balance sheet caption Other Assets and Deferred Charges, and a derivative liability of $61.2 million included in the balance sheet caption Deferred Liabilities and Credits.

## 17 MINORITY INTEREST IN SUBSIDIARIES

The following table summarizes the minority shareholders' and partners' interests in the equity of consolidated subsidiaries.

| December 31, | 2003 (as restated) | 2002 (as restated) |
|---|---|---|
| (Dollars in thousands) | | |
| U.S. Cellular | | |
| Public shareholders | **$439,838** | $427,912 |
| Subsidiaries' partners and shareholders | **51,430** | 48,242 |
| | **491,268** | 476,154 |
| Other minority interests | **11,434** | 11,325 |
| | **$502,702** | $487,479 |

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 its common shares on a quarterly basis, primarily for use in the employee benefit plans.

U.S. Cellular may use repurchased shares to fund acquisitions, for the conversion of debt and for other corporate purposes. U.S. Cellular repurchased no shares during 2003 and 2002. U.S. Cellular repurchased 643,000 of its Common Shares in 2001 for $29.9 million and reissued 644,000 Common Shares in 2001 for the conversion of U.S. Cellular's zero coupon convertible debt.

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

On November 7, 2003, the FASB issued FASB Staff Position ("FSP") No. FAS 150-3, "Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests" under FASB Statement No. 150 "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." The FSP indefinitely deferred the classification and measurement provisions of SFAS No. 150 related to the mandatorily redeemable minority interests associated with finite-lived subsidiaries, but retained the related disclosure provisions. The settlement value of TDS's mandatorily redeemable minority interests is estimated to be $86.7 million at December 31, 2003. This represents the estimated amount of cash that would be due and payable to settle minority interests assuming an orderly liquidation of the finite-lived consolidated partnerships and LLCs on December 31, 2003, net of estimated liquidation costs. This amount is being disclosed pursuant to the requirements of FSP FAS 150-3; TDS has no current plans or intentions to liquidate any of the related partnerships or LLCs prior to their scheduled termination dates. The corresponding carrying value of the minority interests in finite-lived consolidated partnerships and LLCs at December 31, 2003 is $26.8 million, and is included in the balance sheet caption Minority Interest in Subsidiaries. The excess of the aggregate settlement value over the aggregate carrying value of the mandatorily redeemable minority interests of $59.9 million is primarily due to the unrecognized appreciation of the minority interest holders' share of the underlying net assets in the consolidated partnerships and LLCs. Neither the minority interest holders' share, nor TDS's share, of the appreciation of the underlying net assets of these subsidiaries is reflected in the consolidated financial statements under GAAP. The estimate of settlement value was based on certain factors and assumptions. Changes in those factors and assumptions could result in a materially larger or smaller settlement amount.

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

## 18 COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY COMPANY SUBORDINATED DEBENTURES

In September 2003, TDS Capital I and TDS Capital II, subsidiary trusts of TDS, redeemed all of their Company-Obligated Mandatorily Redeemable Preferred Securities ("Preferred Securities") at principal amount, or $25, plus accrued and unpaid distributions. There was no gain or loss on the transaction. Unamortized deferred issuance expenses aggregating $8.7 million were charged to the statements of operations in the caption Other income (expense), net.

At December 31, 2002, TDS Capital I had outstanding 6,000,000 8.5% Preferred Securities. The sole asset of TDS Capital I was $154.6 million principal amount of TDS's 8.5% Subordinated Debentures due December 31, 2037.

At December 31, 2002, TDS Capital II had outstanding 6,000,000 8.04% Preferred Securities. The sole asset of TDS Capital II was $154.6 million principal amount of TDS's 8.04% Subordinated Debentures due March 31, 2038.

Payments due on the obligations of TDS Capital I and II under preferred securities issued by TDS Capital I and II were fully and unconditionally guaranteed by TDS to the extent each trust had funds available therefor. However, TDS's obligations were subordinate and junior in right of payment to certain other indebtedness of TDS. TDS had the right to defer payments of interest on the Subordinated Debentures by extending the interest payment period, at any time, for up to 20 consecutive quarters. If interest payments on the Subordinated Debentures were so deferred, distributions on the preferred securities were also deferred. During any deferral, distributions would have continued to accrue with interest thereon. In addition, during any such deferral, TDS could not have declared or paid any dividend or other distribution on, or redeemed or purchased, any of its common stock.

The 8.5% and 8.04% Subordinated Debentures were redeemable by TDS, in whole or in part, from time to time, on or after November 18, 2002, and March 31, 2003, respectively, or, in whole but not in part, at any time in the event of certain income tax circumstances. If the Subordinated Debentures were redeemed, TDS Capital I and II must have redeemed preferred securities on a pro rata basis having an aggregate liquidation amount equal to the aggregate principal amount of the Subordinated Debentures so redeemed. In the event of the dissolution, winding up or termination of TDS Capital I and II, the holders of preferred securities would have been entitled to receive, for each preferred security, a liquidation amount of $25 plus accrued and unpaid distributions thereon to the date of payment, unless, in connection with the dissolution, winding up or termination, Subordinated Debentures were distributed to the holders of the preferred securities.

## 19 PREFERRED SHARES

The holders of outstanding Preferred Shares are entitled to one vote per share. TDS had 38,645 Preferred Shares ($100 per share stated value) authorized, issued and outstanding at December 31, 2003, of which 38,645 shares were redeemable at the option of TDS and no shares were redeemable at the option of the holder, at $100 per share plus accrued and unpaid dividends. TDS had 69,539 Preferred Shares ($100 per share stated value) authorized, issued and outstanding at December 31, 2002, of which 68,052 shares were redeemable at the option of TDS and 1,487 shares were redeemable at the option of the holders, at $100 per share plus accrued and unpaid dividends. The average dividend rate was $5.23 per share in 2003 and $6.00 per share in 2002. At December 31, 2003, 30,000 Preferred Shares were convertible into 54,540 TDS Common Shares.

The following is a schedule of Preferred Shares activity.

| Year Ended December 31, | **2003** | 2002 | 2001 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Balance, beginning of year | **$ 6,954** | $7,442 | $7,827 |
| Less: | | | |
| Conversion of preferred | **(2,940)** | (122) | (250) |
| Redemption of preferred | **(150)** | (366) | (135) |
| Balance, end of year | **$ 3,864** | $6,954 | $7,442 |

## 20 COMMON STOCKHOLDERS' EQUITY

### *Common Stock*

The holders of Common Shares are entitled to one vote per share. The holders of Series A Common Shares are entitled to ten votes per share. Series A Common Shares are convertible, on a share for share basis, into Common Shares. TDS has reserved 6,440,000 Common Shares at December 31, 2003, for possible issuance upon such conversion.

The following table summarizes the number of Common and Series A Common Shares outstanding.

| (Shares in thousands) | Common Shares | Treasury Shares | Net Common Shares Outstanding | Series A Common Shares |
|---|---|---|---|---|
| Balance | | | | |
| December 31, 2000 | 55,524 | (3,716) | 51,808 | 6,880 |
| Repurchase of Common Shares | — | (325) | (325) | — |
| Conversion of Series A Common Shares | 111 | — | 111 | (111) |
| Dividend reinvestment, incentive and compensation plans | 6 | 172 | 178 | 9 |
| Other | 5 | 1 | 6 | — |
| Conversion of Preferred Shares | 13 | — | 13 | — |
| Balance | | | | |
| December 31, 2001 | 55,659 | (3,868) | 51,791 | 6,778 |
| Conversion of Series A Common Shares | 189 | — | 189 | (189) |
| Dividend reinvestment, incentive and compensation plans | 8 | 65 | 73 | 13 |
| Other | 13 | 4 | 17 | — |
| Conversion of Preferred Shares | 6 | — | 6 | — |
| Balance | | | | |
| December 31, 2002 | 55,875 | (3,799) | 52,076 | 6,602 |
| Repurchase of Common Shares | **—** | **(1,961)** | **(1,961)** | **—** |
| Conversion of Series A Common Shares | **187** | **—** | **187** | **(187)** |
| Dividend reinvestment, incentive and compensation plans | **66** | **65** | **131** | **25** |
| Other | **—** | **7** | **7** | **—** |
| Conversion of Preferred Shares | **154** | **—** | **154** | **—** |
| Balance | | | | |
| December 31, 2003 | **56,282** | **(5,688)** | **50,594** | **6,440** |

### *Common Share Repurchase Program*

The Board of Directors of TDS from time to time has authorized the repurchase of TDS Common Shares. In February 2003, the Board of Directors authorized the repurchase of up to 3.0 million TDS Common Shares through February 2006. As of December 31, 2003, TDS has repurchased 1,961,000 Common Shares under this authorization leaving 1,039,000 shares available for repurchase under the authorization. Share repurchases may be made from time to time on the open market or at negotiated prices in private transactions. TDS may use repurchased shares to fund acquisitions and for other corporate purposes.

TDS repurchased 1,961,000 Common Shares in 2003 for $92.4 million. No shares were repurchased in 2002. TDS repurchased 325,000 Common Shares in 2001 for $30.3 million. TDS reissued 72,000 Common Shares in 2003, 69,000 in 2002 and 173,000 in 2001 primarily for incentive and compensation plans.

### *Accumulated Other Comprehensive Income*

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

| Year Ended December 31, | **2003** | 2002 |
|---|---|---|
| (Dollars in thousands) | | |
| Balance, beginning of year | **$ 191,704** | $ (352,120) |
| Marketable Equity Securities | | |
| Add (Deduct): | | |
| Unrealized gains (losses) on marketable equity securities | **829,083** | (755,369) |
| Income (tax) benefit | **(323,828)** | 294,467 |
| | **505,255** | (460,902) |
| Equity method unrealized gains (losses) | **(489)** | 218 |
| Minority share of unrealized (gains) losses | **(8,019)** | 9,112 |
| Net unrealized gains (losses) | **496,747** | (451,572) |
| Deduct (Add): | | |
| Recognized (losses) on marketable equity securities | **(168)** | (1,757,471) |
| Income tax (expense) benefit | **62** | 686,591 |
| | **(106)** | (1,070,880) |
| Minority share of recognized losses | **21** | 25,900 |
| Net recognized gains (losses) from Marketable Equity Securities included in Net Income | **(85)** | (1,044,980) |
| | **496,832** | 593,408 |
| Derivative Instruments | | |
| Unrealized loss on derivative instruments | **(650,586)** | (82,980) |
| Income tax benefit | **253,774** | 32,472 |
| | **(396,812)** | (50,508) |
| Minority share of unrealized losses | **5,096** | 924 |
| | **(391,716)** | (49,584) |
| Net change in unrealized gains (losses) included in Comprehensive Income | **105,116** | 543,824 |
| Balance, end of year | **$ 296,820** | $ 191,704 |
| Accumulated Unrealized Gain on Derivative Instruments | | |
| Balance, beginning of year | **$ (49,584)** | $ — |
| Add (Deduct): | | |
| Unrealized loss on derivative instruments | **(650,586)** | (82,980) |
| Income tax benefit | **253,774** | 32,472 |
| Minority share of unrealized losses | **5,096** | 924 |
| Balance, end of year | **$(441,300)** | $ (49,584) |

## 21 DIVIDEND REINVESTMENT, INCENTIVE AND COMPENSATION PLANS

The following table summarizes Common and Series A Common Shares issued, including reissued Treasury Shares, for the employee stock ownership plans and dividend reinvestment plans described below.

| Year Ended December 31, | **2003** | 2002 |
|---|---|---|
| Common Shares | | |
| Dividend reinvestment plan | **66,000** | 8,000 |
| Employee stock purchase plan | **16,000** | 24,000 |
| Stock-based compensation plans | **49,000** | 41,000 |
| | **131,000** | 73,000 |
| Series A Common Shares | | |
| Dividend reinvestment plan | **25,000** | 13,000 |

### *Tax-Deferred Savings Plan*

TDS had reserved 45,000 Common Shares at December 31, 2003, for issuance under the TDS Tax Deferred Savings Plan, a qualified profit sharing plan pursuant to Sections 401(a) and 401(k) of the Internal Revenue Code. Participating employees have the option of investing their contributions and TDS's contributions in a TDS Common Share fund, a U.S. Cellular Common Share fund or seven nonaffiliated funds.

### *Dividend Reinvestment Plans*

TDS had reserved 353,000 Common Shares at December 31, 2003, for issuance under the Automatic Dividend Reinvestment and Stock Purchase Plan and 96,000 Series A Common Shares for issuance under the Series A Common Share Automatic Dividend Reinvestment Plan. These plans enable holders of TDS's Common Shares and Preferred Shares to reinvest cash dividends in Common Shares and holders of Series A Common Shares to reinvest cash dividends in Series A Common Shares. The purchase price of the shares is 95% of the market value, based on the average of the daily high and low sales prices for TDS's Common Shares on the American Stock Exchange for the ten trading days preceding the date on which the purchase is made.

### *Employee Stock Purchase Plan*

TDS had 240,000 Common Shares reserved under the 2003 Employee Stock Purchase Plan, which will terminate on December 31, 2008. The plan became effective April 1, 2003, and provides for eligible employees of TDS and its subsidiaries to purchase a limited number of TDS Common Shares on a quarterly basis. The per share cost to each participant is at 85% of the market value of the Common Shares as of the issuance date.

### *Stock Based Compensation Plans*

TDS accounts for stock options, restricted stock awards and employee stock purchase plans under APB Opinion No. 25. TDS recorded compensation expense of $0.3 million on 53,000 options granted in 2003. No compensation costs have been recognized for the remaining 615,000 options granted in 2003. No compensation costs have been recognized for the stock option plans in 2002 and 2001 and employee stock purchase plans in 2003, 2002 and 2001. Compensation costs were recognized for restricted stock awards as expenses in the statement of operations.

TDS had reserved 4,773,000 Common Shares at December 31, 2003, for options granted and to be granted to key employees. TDS has established certain plans that provide for the grant of stock options to officers and employees. The options are exercisable over a specified period not in excess of ten years. Options vest from three months to four years from the date of grant. The options expire from 2004 to 2013 or 30 days after the date of the employee's termination of employment, if earlier.

A summary of the status of TDS stock option plans at December 31, 2003, 2002 and 2001 and changes during the years then ended is presented in the table and narrative that follows:

| | Number of Shares | Weighted Average Option Prices | Weighted Average Black-Scholes Values of Option Grants |
|---|---|---|---|
| Stock Options: | | | |
| Outstanding December 31, 2000 | | | |
| (933,000 exercisable) | 1,333,000 | $ 72.90 | |
| Granted | 216,000 | $ 99.58 | $ 51.05 |
| Exercised | (153,000) | $ 36.38 | |
| Canceled | (5,000) | $108.94 | |
| Outstanding December 31, 2001 | | | |
| (1,031,000 exercisable) | 1,391,000 | $ 80.37 | |
| Granted | 467,000 | $ 59.32 | $ 22.62 |
| Exercised | (41,000) | $ 43.03 | |
| Canceled | (20,000) | $107.25 | |
| Outstanding December 31, 2002 | | | |
| (1,355,000 exercisable) | 1,797,000 | $ 75.24 | |
| Granted | **668,000** | **$ 45.80** | **$17.24** |
| Exercised | **(49,000)** | **$ 43.51** | |
| Canceled | **(63,000)** | **$ 82.66** | |
| Outstanding December 31, 2003 | | | |
| (1,762,000 exercisable) | **2,353,000** | **$ 67.32** | |

At December 31, 2003, 1,762,000 options were exercisable, have exercise prices between $33.87 and $127.00 and a weighted average exercise price of $70.68. The weighted average exercise price of options exercisable at December 31, 2002 and 2001 is $72.09 and $69.39, respectively.

The following table provides certain details concerning TDS stock options outstanding at December 31, 2003:

| Range of Exercise Prices | Stock Options Outstanding | Weighted Average Exercise Price | Weighted Average Contractual Life (Years) |
|---|---|---|---|
| $ 33.87–$ 49.99 | 930,000 | $ 43.06 | 6.4 |
| $ 50.00–$ 74.99 | 714,000 | $ 58.30 | 8.4 |
| $ 75.00–$ 99.99 | 172,000 | $ 98.39 | 7.4 |
| $100.00–$127.00 | 537,000 | $111.37 | 6.5 |

The following table provides certain details concerning TDS stock options exercisable at December 31, 2003:

| Range of Exercise Prices | Stock Options Exercisable | Weighted Average Exercise Price |
|---|---|---|
| \$ 33.87–\$ 49.99 | 543,000 | \$ 43.06 |
| \$ 50.00–\$ 74.99 | 609,000 | \$ 58.35 |
| \$ 75.00–\$ 99.99 | 166,000 | \$ 98.65 |
| \$100.00–\$127.00 | 444,000 | \$110.89 |

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2003, 2002 and 2001, respectively: risk free interest rates of 3.7%, 4.2% and 4.9%; expected dividend yields of 1.4%, 1.3% and 0.7%; expected lives of 8.6 years, 8.6 years and 8.1 years and expected volatility of 31.7%, 29.9% and 32.3%.

U.S. Cellular has established Stock Option plans that provide for the grant of stock options to officers and employees and has reserved 6,511,000 Common Shares at December 31, 2003 for options granted and to be granted to key employees. The options under the plan are exercisable from the date of vesting through 2004 to 2013, or 30 days following the date of the employee's termination of employment, if earlier.

A summary of the status of U.S. Cellular's stock option plans at December 31, 2003, 2002 and 2001 and changes during the years then ended is presented in the table and narrative as follows:

| | Number of Shares | Weighted Average Option Prices | Weighted Average Black-Scholes Values of Option Grants |
|---|---|---|---|
| Stock Options: | | | |
| Outstanding December 31, 2000 | | | |
| (127,000 exercisable) | 525,000 | \$ 40.32 | |
| Granted | 498,000 | \$ 54.90 | \$ 33.65 |
| Exercised | (81,000) | \$ 24.31 | |
| Canceled | (58,000) | \$ 38.38 | |
| Outstanding December 31, 2001 | | | |
| (200,000 exercisable) | 884,000 | \$ 50.42 | |
| Granted | 869,000 | \$ 38.80 | \$ 19.74 |
| Exercised | (9,000) | \$ 29.45 | |
| Canceled | (201,000) | \$ 47.17 | |
| Outstanding December 31, 2002 | | | |
| (336,000 exercisable) | 1,543,000 | \$ 45.15 | |
| Granted | **1,435,000** | **\$23.85** | **\$10.99** |
| Exercised | **(2,000)** | **\$24.37** | |
| Canceled | **(448,000)** | **\$40.18** | |
| Outstanding December 31, 2003 | | | |
| (496,000 exercisable) | **2,528,000** | **\$33.87** | |

At December 31, 2003, 496,000 stock options were exercisable, have exercise prices between \$23.91 and \$73.31 and a weighted average exercise price of \$46.22. The weighted average exercise price of options exercisable at December 31, 2002 and 2001, was \$46.71 and \$39.98, respectively.

The following table provides certain details concerning U.S. Cellular stock options outstanding at December 31, 2003:

| Range of Exercise Prices | Stock Options Outstanding | Weighted Average Exercise Price | Weighted Average Contractual Life (Years) |
|---|---|---|---|
| \$23.20–\$36.99 | 1,478,000 | \$24.34 | 9.0 |
| \$37.00–\$49.99 | 810,000 | \$41.83 | 8.0 |
| \$50.00–\$73.31 | 240,000 | \$65.73 | 5.8 |

The following table provides certain details concerning U.S. Cellular stock options exercisable at December 31, 2003:

| Range of Exercise Prices | Stock Options Exercisable | Weighted Average Exercise Price |
|---|---|---|
| \$23.91–\$36.99 | 76,000 | \$29.80 |
| \$37.00–\$49.99 | 304,000 | \$42.59 |
| \$50.00–\$73.31 | 116,000 | \$66.45 |

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2003, 2002 and 2001, respectively: risk-free interest rates of 3.7%, 4.6% and 5.0%; expected dividend yield of zero for all years; expected lives of 9.3 years, 9.4 years and 8.2 years and expected volatility of 29.4%, 39.4% and 31.7%.

## 22 EMPLOYEE BENEFIT PLANS

### *Pension Plan*

TDS sponsors a qualified noncontributory defined contribution pension plan. The plan provides benefits for the employees of TDS Corporate, TDS Telecom and U.S. Cellular. Under this plan, pension costs are calculated separately for each participant and are funded currently. Total pension costs were \$13.0 million, \$11.0 million and \$8.8 million in 2003, 2002 and 2001, respectively.

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

### *Other Postretirement Benefits*

TDS sponsors two defined benefit postretirement plans that cover most of the employees of TDS Corporate, TDS Telecom and the subsidiaries of TDS Telecom. One plan provides medical benefits and the other plan provides life insurance benefits. Both plans are contributory, with retiree contributions adjusted annually. The medical plan anticipates future cost sharing changes that reflect TDS's intent to increase retiree contributions as a portion of total cost.

Total accumulated contributions to fund the costs of future retiree medical benefits are restricted to an amount not to exceed 25 percent of the total accumulated contributions to the pension trust. An additional contribution equal to a reasonable amortization of the past service cost may be made without regard to the 25 percent limitation.

The following table reconciles the beginning and ending balances of the benefit obligation and the fair value of plan assets for the other postretirement benefit plans.

| December 31, | 2003 | 2002 |
|---|---|---|
| (Dollars in thousands) | | |
| Change in Benefit Obligation | | |
| Benefit obligation at beginning of year | $ 36,007 | $ 27,606 |
| Service cost | 1,676 | 1,249 |
| Interest cost | 2,480 | 1,967 |
| Acquisitions | 2,581 | — |
| Amendments | (6,448) | — |
| Actuarial loss | 8,197 | 6,359 |
| Benefits paid | (1,339) | (1,174) |
| Benefit obligation at end of year | 43,154 | 36,007 |
| Change in Plan Assets | | |
| Fair value of plan assets at beginning of year | 14,659 | 17,959 |
| Actual return on plan assets | 3,076 | (2,164) |
| Employer contribution | 46 | 38 |
| Benefits paid | (1,339) | (1,174) |
| Fair value of plan assets at end of year | 16,442 | 14,659 |
| Funded Status | (26,712) | (21,348) |
| Unrecognized net actuarial loss | 20,444 | 12,005 |
| Unrecognized prior service cost | (7,278) | (959) |
| (Accrued) benefit cost | $(13,546) | $(10,302) |

Net periodic benefit cost for the years ended December 31, 2003, 2002 and 2001 includes the following components.

| Year Ended December 31, | 2003 | 2002 | 2001 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Service cost | $ 1,676 | $ 1,249 | $ 750 |
| Interest cost on accumulated postretirement benefit obligation | 2,480 | 1,967 | 1,482 |
| Expected return on plan assets | (1,197) | (1,487) | (1,836) |
| Amortization of: | | | |
| Unrecognized prior service cost(1) | (128) | (128) | (128) |
| Unrecognized net loss (gain)(2) | 494 | — | (415) |
| Net postretirement (income) cost | $ 3,325 | $ 1,601 | $ (147) |

(1) Based on straight-line amortization over the average time remaining before active employees become fully eligible for plan benefits.

(2) Based on straight-line amortization over the average time remaining before active employees retire.

The following assumptions were used to determine benefit obligations and net periodic benefit cost.

| December 31, | 2003 | 2002 |
|---|---|---|
| Discount rate | 6.25% | 7.0% |
| Expected return on plan assets | 8.5% | 8.5% |

The measurement date for actuarial determination was December 31, 2003. For measurement purposes, a 12.0% and 13.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003 and 2002, respectively. The 2003 annual rate of increase is expected to remain at 12.0% in 2004 and then decrease to 5.25% by 2010 while the 2002 annual rate of increase was expected to remain at 13.0% in 2003 and then decrease to 5.75% by 2010.

The health care cost trend rate assumption has a significant effect on the amounts reported. A one percentage point increase or decrease in assumed health care cost trend rates would have the following effects.

| | One Percentage Point Increase | One Percentage Point Decrease |
|---|---|---|
| (Dollars in thousands) | | |
| Effect on total of service and interest cost components | $1,136 | $ (921) |
| Effect on postretirement benefit obligation | $7,696 | $(6,531) |

The following table describes how plan assets are invested.

| Investment Category | Target Asset Allocation | Allocation of Plan Assets At December 31, 2003 | 2002 |
|---|---|---|---|
| U.S. Equities | 50% | 49.7% | 48.4% |
| International Equities | 15% | 15.1% | 13.5% |
| Debt Securities | 35% | 35.2% | 38.1% |

The post-retirement benefit fund engages multiple asset managers to ensure proper diversification of the investment portfolio within each asset category. The investment objective is to exceed the rate of return of a performance index comprised of 50% Wilshire 5000 Stock Index, 15% MSCI World (excluding U.S.) Stock Index, and 35% Lehman Brothers Aggregate Bond Index. Historical average annual rates of return for this index exceed 8.5%, the expected rate of return used for planning.

The post-retirement benefit fund does not hold any debt or equity securities issued by TDS, U.S. Cellular or any related parties.

TDS is not required to set aside current funds for its future retiree health and life insurance benefits. The decision to contribute to the plan assets is based upon several factors, including the funded status of the plan, market conditions, alternative investment opportunities, tax benefits and other circumstances. TDS expects to fund $6.9 million in 2004 for the 2003 contribution to the plan.

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

Pursuant to guidance from the FASB under FASB Staff Position SFAS 106-1, TDS has chosen to defer recognition of the potential effects of the Act. Therefore, the retiree health obligations and costs reported in these financial statements do not yet reflect any potential impact of the Act. Specific authoritative guidance on the accounting for the government subsidy is pending and that guidance, when issued, could require the company to change previously reported information.

In the months ahead, TDS intends to review its retiree health care strategy in light of the Act. As part of that review, TDS may consider amending its retiree health program to coordinate with the new Medicare prescription drug program or to receive the direct subsidy from the government. As a result, TDS anticipates that its retiree health obligations and costs could be reduced if such amendments are adopted.

## 23 COMMITMENTS AND CONTINGENCIES

### *Construction and Expansion*

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 million 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's incumbent local exchange carrier capital expenditures totaled $111.9 million and the competitive local exchange carrier capital expenditures totaled $27.3 million in 2003. TDS Telecom plans to finance its construction program using primarily internally generated cash.

### *Lease Commitments*

TDS and its subsidiaries have leases for certain plant facilities, office space and data processing equipment, most of which are classified as operating leases. For the years 2003, 2002 and 2001, rent expense for noncancelable, long-term leases was $79.3 million, $68.2 million and $52.9 million, respectively, and rent expense under cancelable, short-term leases was $3.5 million, $14.2 million and $3.0 million, respectively. At December 31, 2003, the aggregate minimum rental commitments under noncancelable, long-term operating leases were as follows:

| (Dollars in thousands) | Minimum Future Rental Payments |
|---|---|
| 2004 | $ 90,378 |
| 2005 | 79,932 |
| 2006 | 68,167 |
| 2007 | 55,999 |
| 2008 | 44,196 |
| Thereafter | $155,358 |

### *Guarantees*

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others – an Interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34." This interpretation expands on the existing accounting guidance and disclosure requirements for most guarantees, including certain indemnifications. It requires that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligations it assumes under that guarantee if that amount is reasonably estimable, and must disclose that information in its interim and annual financial statements. The provisions for initial recognition and measurement of the liability are to be applied on a prospective basis to guarantees issued or modified on or after January 1, 2003. The initial adoption of this statement on January 1, 2003, did not have a material impact on results of operations, financial position or cash flows. Guarantees issued or modified after January 1, 2003, are recognized at their fair value in the financial statements.

*Indemnifications*
TDS enters into agreements in the normal course of business that provide for indemnification of counterparties. These include certain asset sales and financings with other parties. The 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.

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

## 24 DISCONTINUED OPERATIONS

TDS is party to an indemnity agreement with T-Mobile (f/k/a VoiceStream Wireless) regarding certain contingent liabilities at Aerial Communications for the period prior to Aerial's merger into VoiceStream Wireless in 2000. During 2003, it was determined that the indemnity for certain contingent liabilities would be greater than previously provided. TDS took an additional charge of $2.8 million ($1.6 million, net of income tax expense of $1.2 million), or $(.03) per diluted share with respect to the additional liability, recorded as Discontinued operations in the statements of operations.

In 2001, the gain on disposal of Aerial originally recognized in 2000, was reduced by $24.1 million, or $.41 per share, reflecting adjustments to estimates used during the closing in the calculation of income and other tax liabilities.

## 25 SUBSEQUENT EVENT

U.S. Cellular completed the sale of its southern Texas wireless markets to AT&T Wireless and received $97.6 million including a preliminary working capital adjustment on February 18, 2004.

## 26 BUSINESS SEGMENT INFORMATION

TDS conducts substantially all of its wireless telephone operations through its 82.1%-owned subsidiary, U.S. Cellular. At December 31, 2003, U.S. Cellular provided cellular telephone service to 4.4 million customers in 28 states. TDS conducts its wireline telephone operations through its wholly-owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom"). TDS Telecom provides service through local telephone operations, or incumbent local exchange carrier companies and through competitive local exchange carrier companies. At December 31, 2003, TDS Telecom operated 111 incumbent local exchange telephone companies serving 722,200 equivalent access lines in 28 states and two competitive local exchange carriers serving 364,800 equivalent access lines in five states.

U.S. Cellular and TDS Telecom are billed for all services they receive from TDS, consisting primarily of information processing and general management services. Such billings are based on expenses specifically identified to U.S. Cellular and TDS Telecom and on allocations of common expenses. Management believes the method used to allocate common expenses is reasonable and that all expenses and costs applicable to U.S. Cellular and TDS Telecom are reflected in the accompanying business segment information on a basis which is representative of what they would have been if U.S. Cellular and TDS Telecom operated on a stand-alone basis.

Financial data for TDS's business segments for each of the years ended December 31, 2003, 2002 and 2001 are as follows:

| | | TDS Telecom | | | |
|---|---|---|---|---|---|
| Year Ended or at December 31, 2003 (as restated) | U.S. Cellular | ILEC | CLEC | All Other[(1)] | Total |
| (Dollars in thousands) | | | | | |
| Operating revenues | **$2,582,783** | **$ 652,782** | **$213,501** | **$ (3,850)** | **$ 3,445,216** |
| Cost of services and products | **931,309** | **167,342** | **86,377** | **(2,143)** | **1,182,885** |
| Selling, general and administrative expense | **1,004,655** | **180,171** | **115,175** | **(1,707)** | **1,298,294** |
| Operating income before depreciation, amortization and accretion and loss on assets held for sale and impairments[(2)] | **646,819** | **305,269** | **11,949** | **—** | **964,037** |
| Depreciation, amortization and accretion expense | **432,333** | **130,036** | **33,363** | **—** | **595,732** |
| Loss on impairment of intangible assets | **49,595** | **—** | **—** | **—** | **49,595** |
| Loss on assets held for sale and impairment of assets[(3)] | **45,908** | **351** | **4,563** | **—** | **50,822** |
| Operating income (loss) | **118,983** | **174,882** | **(25,977)** | **—** | **267,888** |
| Significant noncash items: | | | | | |
| Investment income | **52,063** | **875** | **—** | **216** | **53,154** |
| Loss on marketable equity securities and other investments | **(5,200)** | **(5,000)** | **—** | **—** | **(10,200)** |
| Marketable equity securities | **260,188** | **70,609** | **—** | **2,441,613** | **2,772,410** |
| Investment in unconsolidated entities | **170,569** | **19,606** | **—** | **24,710** | **214,885** |
| Total assets | **4,945,721** | **1,808,511** | **235,329** | **3,203,777** | **10,193,338** |
| Capital expenditures | **$ 632,526** | **$ 111,924** | **$ 27,294** | **$ 5,223** | **$ 776,967** |

| Year Ended or at December 31, 2002 (as restated) | U.S. Cellular | TDS Telecom ILEC | TDS Telecom CLEC | All Other[1] | Total |
|---|---|---|---|---|---|
| (Dollars in thousands) | | | | | |
| Operating revenues | $ 2,197,586 | $ 626,787 | $ 176,602 | $ (2,501) | $ 2,998,474 |
| Cost of services and products | 735,273 | 142,618 | 85,909 | (1,040) | 962,760 |
| Selling, general and administrative expense | 829,993 | 186,023 | 124,359 | (1,461) | 1,138,914 |
| Operating income before depreciation, amortization and accretion[2] | 632,320 | 298,146 | (33,666) | — | 896,800 |
| Depreciation, amortization and accretion expense | 351,154 | 130,232 | 29,059 | — | 510,445 |
| Operating income (loss) | 281,166 | 167,914 | (62,725) | — | 386,355 |
| Significant noncash items: | | | | | |
| Investment income | 42,068 | 530 | — | 1,077 | 43,675 |
| Loss on marketable equity securities and other investments | (295,454) | (95,518) | — | (1,497,419) | (1,888,391) |
| Marketable equity securities | 185,961 | — | — | 1,758,978 | 1,944,939 |
| Investment in unconsolidated entities | 161,451 | 18,965 | — | 25,579 | 205,995 |
| Total assets | 4,768,888 | 1,858,923 | 246,185 | 2,797,788 | 9,671,784 |
| Capital expenditures | $ 730,645 | $ 116,486 | $ 51,919 | $ — | $ 899,050 |

| Year Ended or at December 31, 2001 | U.S. Cellular | TDS Telecom ILEC | TDS Telecom CLEC | All Other[1] | Total |
|---|---|---|---|---|---|
| (Dollars in thousands) | | | | | |
| Operating revenues | $ 1,894,830 | $ 576,817 | $ 118,812 | $ (1,917) | $ 2,588,542 |
| Cost of services and products | 587,873 | 119,455 | 64,827 | (1,103) | 771,052 |
| Selling, general and administrative expense | 689,087 | 163,659 | 79,384 | (814) | 931,316 |
| Operating income before depreciation, amortization and accretion[2] | 617,870 | 293,703 | (25,399) | — | 886,174 |
| Depreciation, amortization and accretion expense | 300,658 | 131,787 | 17,574 | — | 450,019 |
| Operating income (loss) | 317,212 | 161,916 | (42,973) | — | 436,155 |
| Significant noncash items: | | | | | |
| Investment income | 41,934 | 1,739 | — | 6,966 | 50,639 |
| Loss on marketable equity securities and other investments | — | — | — | (548,305) | (548,305) |
| Marketable equity securities | 272,390 | — | — | 2,427,840 | 2,700,230 |
| Investment in unconsolidated entities | 159,454 | 48,320 | — | 25,904 | 233,678 |
| Total assets | 3,759,157 | 1,527,758 | 213,566 | 2,579,093 | 8,079,574 |
| Capital expenditures | $ 503,334 | $ 99,866 | $ 96,950 | $ — | $ 700,150 |

(1) Consists of the TDS Corporate operations, TDS Telecom intra-company eliminations, TDS Corporate and TDS Telecom marketable equity securities and all other businesses.

(2) Operating income before depreciation, amortization and accretion and loss on assets held for sale and impairment of assets and Operating income before depreciation, amortization and accretion are measures of profit and loss used by the chief operating decision maker to review the operating performance of each reportable business segment and is reported above in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information."

(3) There was no Loss on impairment of intangible assets or Loss on assets held for sale and impairment of assets in 2002 and 2001.

| Year Ended December 31, | **2003** (as restated) | 2002 | 2001 |
|---|---|---|---|
| (Dollars in thousands) | | | |
| Total operating income from reportable segments | **$ 267,888** | $ 386,355 | $ 436,155 |
| Investment and other income and expense | **(137,152)** | (1,942,024) | (615,111) |
| Income from continuing operations before income taxes and minority interest | **$ 130,736** | $(1,555,669) | $(178,956) |