

TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-Q/A
June 28, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q /A

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

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

For the quarterly period ended March 31, 2002

OR

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

For the transition period from _____ to _____

Commission file number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

36-2669023

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

30 North LaSalle Street, Chicago, Illinois 60602

(Address of principal executive offices) (Zip Code)

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

Not Applicable

(Former address of principal executive offices) (Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest

practicable date.

Class	Outstanding at April 30, 2002
Common Shares, \$.01 par value	52,018,776 Shares
Series A Common Shares, \$.01 par value	6,620,069 Shares

Explanatory Note

This amendment to the Form 10-Q for the quarterly period ended March 31, 2002 is being filed to provide additional disclosure relating to intangible assets and goodwill, to make certain minor changes and to describe certain subsequent events that have been previously announced since the date of the filing of the original Form 10-Q.

TELEPHONE AND DATA SYSTEMS, INC.

1st QUARTER REPORT ON FORM 10-Q /A

INDEX

	<u>Page No.</u>
 <u>Part I. Financial Information</u>	
<u>Management's Discussion and Analysis of</u> Results of Operations and Financial Condition	3-20
<u>Consolidated Statements of Operations -</u> Three Months Ended March 31, 2002 and 2001	21
<u>Consolidated Statements of Cash Flows -</u> Three Months Ended March 31, 2002 and 2001	22
<u>Consolidated Balance Sheets -</u> March 31, 2002 and December 31, 2001	23-24
<u>Notes to Consolidated Financial Statements</u>	25-33
 <u>Part II. Other Information</u>	 34
 <u>Signatures</u>	 35

PART I. FINANCIAL INFORMATION
TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS
AND FINANCIAL CONDITION

Telephone and Data Systems, Inc. (TDS or the Company) is a diversified telecommunications company, providing high-quality telecommunications services to 4.4 million wireless telephone customer units and wireline telephone access lines. TDS's long-term business strategy is to expand its existing operations through internal growth and acquisitions, and to explore and develop telecommunications businesses that management believes will utilize TDS's expertise in providing customer focused telecommunications services. The Company conducts substantially all of its wireless telephone operations through its 82.2%-owned subsidiary, United States Cellular Corporation (U.S. Cellular) and its wireline telephone operations through its wholly owned subsidiary, TDS Telecommunications Corporation (TDS Telecom).

The following discussion and analysis should be read in conjunction with the Company's interim consolidated financial statements and footnotes included herein, and with the Company's audited consolidated financial statements and footnotes and Management's Discussion and Analysis of Results of Operations and Financial Condition included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001, which are incorporated by reference herein.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2002 Compared to Three Months Ended March 31, 2001

Operating Revenues increased 11% (\$64.8 million) during the first three months of 2002 primarily as a result of an 11% increase in customer units served. U.S. Cellular's operating revenues increased 9% (\$38.7 million) as customer units served increased by 283,000, or 9%, since March 31, 2001, to 3,504,000. TDS Telecom operating revenues increased 16% (\$26.1 million) as equivalent access lines increased by 155,100, or 21%, since March 31, 2001 to 902,500.

Operating Expenses rose 10% (\$50.8 million) in 2002 reflecting growth in operations. U.S. Cellular's operating expenses increased 5% (\$18.3 million) and TDS Telecom's expenses increased 25% (\$32.5 million) reflecting growth in operations.

Operating Income increased 16% (\$14.0 million) to \$104.5 million in 2002. Operating margin increased to 15.7% in 2002 from 15.1% in 2001 on a consolidated basis. U.S. Cellular's operating income increased 35% (\$20.4 million) to \$78.8 million in 2002 and its operating income margin, as a percentage of service revenues, increased to 17.1% in 2002 from 13.8% in 2001. TDS Telecom's operating income decreased 20% (\$6.4 million) to \$25.7 million in 2002 and its operating margin declined to 13.8% in 2002 from 19.9% in 2001. The decrease in TDS Telecom's operating income and margin was primarily due to increased operating losses as a result of expanding the competitive local exchange business activities.

TDS adopted Statement of Financial Accounting Standards (SFAS) No. 142 effective January 1, 2002, and ceased the amortization of license costs and goodwill on that date. TDS determined that no impairment charge was required to be recorded upon the completion of the initial impairment review required under SFAS No. 142. For the three months ended March 31, 2001, amortization of license costs and goodwill included in U.S.

Cellular s and TDS Telecom s depreciation and

3

amortization captions totaled \$9.2 million and \$1.7 million, respectively. The aggregate effect of ceasing amortization increased operating income by 12% (\$10.9 million).

Investment and Other Income (Expense) primarily includes gains and (losses) on marketable securities and other investments, interest and dividend income, and investment income. Investment and other income (expense) totaled \$(23.1) million in 2002 and \$14.5 million in 2001.

Investment Income, net, increased \$4.1 million to \$11.0 million in the first three months of 2002 due to improved operating results of certain wireless interests. Investment income represents the Company s share of income in unconsolidated entities in which the Company has a minority interest and follows the equity method of accounting.

Gain (Loss) on Marketable Securities and Other Investments totaled \$(37.4) million in 2002. Management determined the decline in value of TDS s investment in VeriSign, Inc. relative to its cost basis was other than temporary and charged a \$37.4 million loss to the statement of operations .

Income Tax Expense decreased 28% (\$8.5 million) in 2002 primarily due to the decrease in pretax income. The effective tax rate was 48.4% in 2002 and 43.9% in 2001. Excluding the loss on marketable securities, the effective tax rate was 44.4% in 2002.

Minority Share of (Income) includes the minority public shareholders share of U.S. Cellular s net income, the minority shareholders or partners share of U.S. Cellular s subsidiaries net income or loss and other minority interests. The increase in minority share of income primarily reflects the increase in U.S. Cellular s net income.

	Three Months Ended		
	March 31,		
	2002	2001	Change
	(Dollars in thousands)		
Minority Share of (Income) Loss			
U.S. Cellular			
Minority Public Shareholders'	\$ (7,797)	\$ (6,018)	\$ (1,779)
Minority Shareholders' or Partners'	(2,433)	(2,279)	(154)
	(10,230)	(8,297)	(1,933)
Other	291	328	(37)
	\$ (9,939)	\$ (7,969)	\$ (1,970)

4

Income before Extraordinary Item totaled \$13.6 million, or \$.23 per diluted share, in 2002 compared to \$31.2 million, or \$.52 per diluted share, in 2001. Income, excluding amortization of license costs and goodwill, and gains and losses, was \$36.2 million, or \$.61 per diluted share in 2002 compared to \$37.8 million, or \$.63 per diluted share in 2001. No amortization expense was recorded on license costs and goodwill in the three months ended March 31, 2002 pursuant to SFAS No. 142. See Footnote 3 to the Consolidated Financial Statements for a

further breakdown of the amortization expense and its effects on income and earnings per share. A summary of income before extraordinary item and diluted earnings per share from operations and gains (losses) is shown below, as adjusted to exclude amortization in 2001 to permit comparison to 2002.

	Three Months Ended March 31,	
	2002	2001
	(Dollars in thousands, except per share amounts)	
Income before Extraordinary Item		
Operations	\$ 36,232	\$ 37,846
SFAS No. 142 Amortization Adjustment	--	(6,624)
Gains (Losses)	(22,635)	--
	-----	-----
	\$ 13,597	\$ 31,222
	=====	=====
 Diluted Earnings Per Share before Extraordinary Item		
Operations	\$ 0.61	\$ 0.63
SFAS No. 142 Amortization Adjustment	--	(.11)
Gains (Losses)	(0.38)	--
	-----	-----
	\$ 0.23	\$ 0.52
	=====	=====

Extraordinary Item loss on extinguishment of debt, net of minority interest in 2001 is related to U.S. Cellular's retirement of its LYONs. U.S. Cellular retired LYONs with an aggregate carrying value of \$8.5 million for cash totaling \$12.0 million. A loss net of minority interest of \$3.0 million, or \$.05 per diluted share, reflects the difference between purchase price and the carrying value.

Net Income Available to Common totaled \$13.5 million, or \$.23 per diluted share, in 2002, compared to \$28.1 million, or \$.47 per diluted share, in 2001.

Acquisition of Chicago 20MHz

On May 10, 2002, U.S. Cellular announced that it entered into a definitive agreement with PrimeCo Wireless Communications LLC (PrimeCo) to acquire from PrimeCo all of the equity interests in Chicago 20MHz, LLC, including the assets and certain liabilities of Chicago 20MHz. Chicago 20MHz operates the PrimeCo wireless system in the Chicago Major Trading Area (MTA). Chicago 20MHz is the holder of certain FCC licenses, including a 20 megahertz PCS license in the Chicago MTA (excluding Kenosha County, Wis.) covering 13.1 million population equivalents (POPs). The purchase price is approximately \$610 million in cash, subject to certain working capital and other adjustments, plus the assumption of certain liabilities at closing. U.S. Cellular intends to finance the purchase price through various sources including bank and bond financing. The transaction is subject to certain conditions, including governmental and regulatory approvals and the completion of \$500 million in debt financing, and is expected to close in the third quarter of 2002.

U.S. CELLULAR OPERATIONS

TDS provides wireless telephone service through United States Cellular Corporation (U.S. Cellular), an 82.2%-owned subsidiary. U.S. Cellular owns, manages and invests in cellular markets throughout the United States. Growth in the customer base is a primary reason for the growth in U.S. Cellular's results of operations. The number of customer units served increased by 283,000 or 9%, since March 31, 2001, to 3,504,000.

	Three Months Ended March 31,	
	2002	2001
	(Dollars in thousands)	
Operating Revenues		
Retail service	\$ 373,826	\$ 326,541
Inbound roaming	54,330	64,026
Long-distance and other service revenues	32,957	33,392
	-----	-----
Service Revenues	461,113	423,959
Equipment sales	17,307	15,810
	-----	-----
	478,420	439,769
	-----	-----
Operating Expenses		
System operations	107,921	95,584
Marketing and selling	80,056	71,305
Cost of equipment sold	30,367	33,812
General and administrative	108,478	109,246
Depreciation	65,977	55,244
Amortization	6,775	16,095
	-----	-----
	399,574	381,286
	-----	-----
Operating Income	\$ 78,846	\$ 58,483
	=====	=====

Operating revenues increased 9% (\$38.7 million) in 2002 primarily related to the increase in customer units. Average monthly service revenue per customer decreased 1% (\$.51) to \$44.14 in 2002 from \$44.65 in 2001.

Retail service revenues (charges to U.S. Cellular's customers for local system usage and usage of systems other than their local systems) increased 14% (\$47.3 million) in 2002 due primarily to the 9% customer growth. Average local minutes of use per retail customer increased 31% to 237 in 2002 from 181 in 2001, while average retail service revenue per minute continued to decline. Competitive pressures and U.S. Cellular's use of incentive programs and rate plans to stimulate overall usage resulted in a lower average monthly retail service revenue per minute of use. Average monthly retail service revenue per customer increased 4% (\$1.40) to \$35.79 in 2002 from \$34.39 in 2001.

Inbound roaming revenues (charges to customers of other systems who use U.S. Cellular's wireless systems when roaming) decreased 15% (\$9.7 million) in 2002. Lower negotiated roaming rates have offset increased minutes of use, resulting in decreased roaming revenues. The increase in minutes of use was in proportion to the growth in the number of customers throughout the wireless industry. Wireless customers who sign up for these programs are given price incentives to roam in other markets, including U.S. Cellular's markets, thus driving an increase in U.S. Cellular's inbound roaming minutes of use. Average monthly inbound roaming revenue per U.S. Cellular customer decreased 23% (\$1.54) to \$5.20 in 2002 compared to \$6.74 in 2001. The decrease is

attributable to a decrease in inbound roaming revenue compared to an increase in the U.S. Cellular

customer base.

Management anticipates that the rate of growth in inbound roaming minutes of use will continue to slow down due to newer customers roaming less than existing customers, reflecting further penetration of the consumer market. In addition, as new wireless operators begin service in U.S. Cellular's markets, roaming partners could switch their business to these new operators. It is also anticipated that average inbound roaming revenue per minute of use will continue to decline in the future, reflecting the general downward trend in negotiated rates.

Operating expenses increased 5% (\$18.3 million) in 2002. The increase is primarily related to costs incurred to serve and expand the customer base.

System operations expenses (costs to provide service) increased 13% (\$12.3 million) and represented 23.4% of service revenues in 2002 and 22.5% in 2001. System operations expenses include customer usage expenses and maintenance, utility and cell site expenses. This increase was due to an increase in the costs associated with customers roaming on other companies' systems (\$5.2 million), an increase in the cost of minutes used on the systems (\$5.0 million) and an increase in the cost of maintaining the network (\$2.4 million). Management expects system operations to increase over the next few years, driven by increases in the number of cell sites and increases in minutes of use on the U.S. Cellular system and on other systems when roaming. The number of cell sites increased to 3,049 in 2002 from 2,597 in 2001.

Costs to expand the customer base consist of marketing and selling expenses and the cost of equipment sold. Marketing and selling expenses increased 12% (\$8.8 million) in 2002 while cost of equipment sold declined 10% (\$3.4 million). These expenses, less equipment sales revenue, represent the cost to acquire a new customer. Equipment sales revenue increased 9% (\$1.5 million) in 2002. The increase in marketing and selling expense in 2002 was primarily due to increased costs related to improvements made to U.S. Cellular's telesales and merchandise management processes, offset somewhat by lower costs related to a 12% decrease in the number of gross customer additions. Cost per gross customer addition increased to \$365 in 2002 from \$308 in 2001. This increase is attributed to a decrease in gross customer activations to 255,000 in 2002 from 290,000 in 2001 combined with increased costs.

General and administrative expenses decreased 1% (\$0.8 million) and represented 23.5% of service revenues in 2002 and 25.8% in 2001. The decrease in general and administrative expenses reflects the reduction in customer retention costs of \$3.5 million due to the slowing of the migration of customers from analog to digital service. The retention costs were offset somewhat by the increase in expenses required to serve the growing customer base in U.S. Cellular's markets and other expenses incurred related to the overall growth in U.S. Cellular's business.

Depreciation expense increased 19% (\$10.7 million) in 2002 primarily due to the 16% increase in average fixed assets since March 31, 2001. Amortization expense decreased 58% (\$9.3 million) as a result of the implementation of SFAS No. 142. U.S. Cellular determined that licenses have indefinite lives and no longer amortize the intangible asset. No impairment charge was required to be recorded upon the completion of the initial impairment review. In the first quarter of 2001, amortization of license costs and goodwill totaled \$9.2 million.

Operating income increased 35% (\$20.4 million) to \$78.8 million in 2002. Operating margin, as a percent of service revenue, increased to 17.1% in 2002 compared to 13.8% in 2001. The increase in operating income and operating income margin resulted from increased revenues combined with lower amortization expenses and

general and administrative expenses partially offset by increased costs to serve and expand the customer base.

7

Management expects service revenues to continue to grow during the remainder of 2002. However, management anticipates that average monthly revenue per customer will decrease as retail service and inbound roaming revenue per minute of use decline. Management believes U.S. Cellular operating results reflect seasonality in both service revenues, which tend to increase more slowly in the first and fourth quarters, and operating expenses which tend to be higher in the fourth quarter due to increased marketing activities and customer growth. This seasonality may cause operating income to vary from quarter to quarter.

Competitors licensed to provide personal communications services ("PCS") have initiated service in certain U.S. Cellular markets over the past several years. U.S. Cellular expects other wireless operators to continue deployment of PCS throughout all of its market clusters during 2002. U.S. Cellular's management continues to monitor other wireless communications providers' strategies to determine how additional competition is affecting U.S. Cellular's results. The effects of additional wireless competition have slowed customer growth in certain of U.S. Cellular's markets. Coupled with the downturn in the nation's economy, the effect of increased competition has caused U.S. Cellular's customer growth in these markets to be slower than expected in the last half of 2001 and in the first three months of 2002. Management anticipates that overall customer growth will continue to be slower in the future, primarily as a result of the increase in the number of competitors in U.S. Cellular's markets and the maturation of the wireless industry.

Business of Chicago 20MHz

As indicated above, U.S. Cellular has entered into a definitive agreement with PrimeCo to acquire Chicago 20MHz, LLC, which owns wireless licenses and assets in the Chicago Major Trading Area ("MTA"), excluding Kenosha County, Wisconsin. The Chicago MTA is the fourth largest MTA in the United States. Chicago 20MHz owns licenses covering 18 Basic Trading Areas ("BTAs"), that comprise the Chicago MTA, covering a population of approximately 13.1 million based on 2001 Claritas population estimates. The Chicago MTA includes the Chicago, Bloomington-Normal, Champaign-Urbana, Decatur-Effingham, Peoria, Rockford and Springfield BTAs in Illinois, and the South Bend and Fort Wayne BTAs in Indiana. The network of Chicago 20MHz covers approximately 73% of the population in the licensed area.

Chicago 20MHz utilizes Code Division Multiple Access ("CDMA") technology in a network with over 500 cell sites. Chicago 20MHz currently serves approximately 350,000 customers, representing a penetration rate of approximately 3% based on 2001 Claritas population estimates for the licensed area of the Chicago 20MHz.

Chicago 20MHz utilizes both direct and indirect distribution channels, with direct distribution provided through 34 stores and kiosks, and indirect distribution through approximately 650 authorized retail partners. In addition, Chicago 20MHz has over 720 replenishment locations for prepaid customers. Chicago 20MHz markets itself under the PrimeCo brand name. After the acquisition, U.S. Cellular will re-launch the market under its "U.S. Cellular" brand.

At March 31, 2001, Chicago 20MHz had approximately 490 employees, none of which are represented by labor unions.

Chicago 20MHz competes in the Chicago MTA directly against larger and more established wireless service providers. The other wireless carriers competing in all or part of the Chicago MTA include Cingular, Verizon Wireless, AT&T Wireless, Sprint PCS, Nextel and VoiceStream. These competitors provide wireless services on a substantially national basis. As a result, they have customer bases substantially greater than Chicago 20MHz, which is only a local competitor, and also greater than U.S. Cellular, which is a regional competitor, and may

have financial resources that are substantially greater than Chicago 20MHz and U.S. Cellular.

8

The markets of Chicago 20MHz are adjacent to the Iowa, Illinois, Wisconsin and Indiana markets of U.S. Cellular's Midwest cluster, which is its largest market cluster. Of the total Chicago MTA population of 13.1 million, approximately 81% is not currently covered by U.S. Cellular's current licenses. There is a strong community of interest between U.S. Cellular's existing markets and the Chicago 20MHz markets. The Chicago MTA is the single largest roaming destination of U.S. Cellular's current customers.

For the twelve months ended December 31, 2001, Chicago 20MHz had net revenues of \$232 million, operating cash flow of \$12 million and a net loss of \$27 million.

9

TDS TELECOM OPERATIONS

TDS operates its wireline telephone business through TDS Telecommunications Corporation ("TDS Telecom"), a wholly owned subsidiary. Total equivalent access lines served by TDS Telecom increased by 155,100 or 21%, since March 31, 2001 to 902,500.

TDS Telecom's incumbent local exchange carriers ("ILEC") subsidiaries served 681,000 equivalent access lines at March 31, 2002, a 9% (57,300 equivalent access lines) increase over the 623,700 equivalent access lines at March 31, 2001. Acquisitions in 2001 added 44,900 equivalent access lines while internal growth added 12,400 equivalent access lines.

TDS Telecom ILECs are reporting access line equivalents in 2002. Access line equivalents are derived by converting high capacity data lines to the estimated capacity of one switched access line. This change, which results in an adjustment to historical statistics, was made in order to account for an increasing use of data lines.

TDS Telecom's competitive local exchange carrier ("CLEC") subsidiaries served 221,500 equivalent access lines at March 31, 2002, an increase of 97,800 equivalent access lines from 123,700 equivalent access lines served at March 31, 2001. TDS Telecom is evaluating additional expansion of its CLEC operations within its Midwest cluster.

	Three Months Ended March 31,	
	2002	2001
	(Dollars in thousands)	
Local Telephone Operations		
Operating Revenues		
Local service	\$ 46,843	\$ 43,126
Network access and long-distance	83,084	74,603
Miscellaneous	19,594	16,715
	-----	-----
	149,521	134,444
	-----	-----
Operating Expenses		
Operating expenses	76,549	64,263
Depreciation and amortization	32,455	32,400
	-----	-----
	109,004	96,663
	-----	-----

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Local Telephone Operating Income	\$ 40,517	37,781
	-----	-----
Competitive Local Exchange Operations		
Operating Revenues	\$ 37,754	\$ 26,617
	-----	-----
Operating Expenses		
Operating expenses	45,887	29,193
Depreciation and amortization	6,692	3,198
	-----	-----
	52,579	32,391
	-----	-----
Competitive Local Exchange Operating (Loss)	\$ (14,825)	\$ (5,774)
	-----	-----
Intercompany revenue elimination	(498)	(461)
Intercompany expense elimination	(498)	(461)
	-----	-----
Operating Income	\$ 25,692	\$ 32,007
	=====	=====

Operating revenues increased 16% (\$26.1 million) in 2002, reflecting primarily customer growth in local telephone operations, including acquisitions, growth in relatively new services such as long

10

distance resale, and expansion of competitive local exchange activities.

Operating expenses increased 25% (\$32.5 million) during 2002, reflecting primarily growth in expenses related to the newer services, ILEC acquisitions and the expansion of competitive local exchange activities.

Operating income decreased 20% (\$6.4 million) to \$25.7 million in 2002 reflecting operating losses incurred from the expansion of competitive local exchange operations offset by improved local telephone operations operating results.

Local Telephone Operations

Operating revenues increased 11% (\$15.0 million) in 2002. Acquisitions increased revenues by \$10.6 million. Average monthly revenue per equivalent access line increased 2% (\$1.23) to \$73.35 in 2002 from \$72.12 in 2001. Revenues from reselling long distance service increased network access and long distance revenues by \$3.2 million in 2002. As of March 31, 2002, TDS Telecom was providing long distance service to 143,100 customers compared to 60,300 customers in 2001.

Operating expenses increased by 13% (\$12.3 million) in 2002. Cash operating expenses increased by 19% (\$12.3 million) in 2002. Acquisitions increased cash operating expenses by \$6.9 million in 2002. Bad debt expense increased by \$3.0 million related to the write-off of pre-petition accounts receivable due to the bankruptcy of a long distance provider. The cost of providing long-distance service to an increased customer base increased expenses by \$2.5 million. Depreciation and amortization increased less than 1% (\$54,000) in 2002. Acquisitions increased depreciation expense by \$2.0 million. In accordance with SFAS No. 142, TDS Telecom no longer amortizes telephone franchise costs (goodwill). No impairment charge was required to be recorded upon the completion of the initial impairment review. Amortization expense of goodwill amounted to \$1.7 million in the first three months of 2001.

Operating income increased 7% (\$2.7 million) to \$40.5 million. Operating income should remain fairly stable or increase slightly with expense increases due to inflation and additional revenue and expenses from new or expanded product offerings.

Competitive Local Exchange Operations

Operating revenues increased 42% (\$11.1 million) in 2002 as equivalent access lines served increased to 221,500 at March 31, 2002 from 123,700 at March 31, 2001.

Operating expenses increased 62% (\$20.2 million) in 2002 due primarily to the costs incurred to grow and serve the customer base and expand competitive local exchange operations.

Operating loss increased \$9.1 million to \$14.8 million. TDS Telecom expects its competitive local exchange business to continue to grow. Operating losses are expected to increase somewhat throughout 2002 due to increased depreciation expenses and costs associated with market expansion.

FINANCIAL RESOURCES

Cash Flows From Operating Activities.

The Company generates substantial internal funds from the operations of U.S. Cellular and TDS Telecom. Cash flows from operating activities totaled \$183.1 million in the first three months of 2002 compared to \$163.8 million in 2001.

Income from operations excluding all noncash items increased 3% (\$4.6 million) to \$162.2 million in the first three months of 2002. Changes in working capital and other assets and liabilities from operations provided \$20.8 million in 2002 and \$6.2 million in 2001 reflecting timing differences in the payment of accounts payable and accrued taxes and the receipt of accounts receivable.

	Three Months Ended March 31,	
	2002	2001
	-----	-----
	2002	2001
	-----	-----
	(Dollars in thousands)	
Income from operations	\$ 13,597	\$ 31,222
Noncash items included in Income from operations	148,651	126,384
	-----	-----
Income from continuing operations Excluding all noncash items	162,248	157,606
Changes in working capital and other Assets and liabilities from operations	20,845	6,235
	-----	-----
	\$ 183,093	\$ 163,841
	=====	=====

Cash Flows From Investing Activities.

TDS makes substantial investments each year to acquire, construct, operate and upgrade modern high-quality communications networks and facilities as a basis for creating long-term value for shareowners. Cash flows from investing activities required \$147.5 million in the first three months of 2002 compared to \$213.6 million in 2001.

Cash expenditures for capital additions required \$128.3 million in 2002 and \$151.3 million in 2001. The primary purpose of TDS's construction and expansion expenditures is to provide for significant customer growth, to upgrade service, and to take advantage of service-enhancing and cost-reducing technological developments in order to maintain competitive services. U.S. Cellular's capital additions totaled \$100.1 million in 2002 and \$120.4 million in 2001 representing expenditures to construct cell sites, to replace retired assets, to improve business systems and to change out analog equipment for digital equipment. TDS Telecom capital expenditures for its local telephone operations totaled \$19.2 million in 2002 and \$12.8 million in 2001 representing expenditures for switch modernization and outside plant facilities to maintain and enhance the quality of service and offer new revenue opportunities. TDS Telecom's capital expenditures for competitive local exchange operations totaled \$9.0 million in 2002 and \$18.1 million in 2001 for switching and other network facilities.

Cash used for acquisitions, excluding cash acquired, totaled \$17.6 million in 2002 and \$60.8 million in 2001. TDS's acquisitions include primarily the purchase of controlling interests in wireless markets and telephone properties, minority interests that increased the ownership of majority-owned markets and wireless spectrum. TDS added 2 PCS licenses in 2002 and the majority interest in one cellular market in 2001. The 2001 expenditures also include an additional deposit on certain PCS licenses. The PCS licenses were acquired on U.S. Cellular's

12

behalf and through joint ventures. The interests acquired through joint ventures are 100% owned by the joint ventures, and U.S. Cellular is considered to have the controlling financial interest in these joint ventures for financial reporting purposes.

Cash Flows From Financing Activities.

Cash flows from financing activities required \$95.5 million in the first three months of 2002 and \$10.3 million in 2001. TDS paid \$51.0 million to retire Medium-term Notes in the first quarter of 2002 that were called at their principal face amount. Notes Payable balances decreased \$31.0 million in 2002 and increased by \$36.5 million in 2001. Dividends paid on Common and Preferred Shares, excluding dividends reinvested, totaled \$8.6 million in 2002 and \$8.1 million in 2001.

During the first three months of 2001, cash required for the repurchase of TDS common shares (110,000 shares for an aggregate price of \$10.3 million) and the settlement of late December 2000 repurchases totaled \$13.5 million. During the first three months of 2001, U.S. Cellular paid \$11.0 million to settle repurchases of U.S. Cellular Common Shares made in late December 2000. No TDS or U.S. Cellular common shares were repurchased in 2002.

In 2001, U.S. Cellular retired LYONs securities with a carrying value of \$15.8 million for cash totaling \$10.8 million and 162,000 U.S. Cellular Common Shares. An additional \$1.2 million was paid in April 2001 to settle retirements that occurred at the end of March 2001.

LIQUIDITY AND CAPITAL RESOURCES

Subject to the discussion under "Financing of Chicago 20 MHz Acquisition" below, management believes that internal cash flow, existing cash and cash equivalents, and funds available from line of credit arrangements provide sufficient financial resources to finance its near-term capital, business development and expansion expenditures. TDS and its subsidiaries have access to public and private capital markets to help meet its long-term financing needs. TDS and its subsidiaries anticipate accessing public and private capital markets to issue debt and equity securities only when and if capital requirements, financial market conditions and other factors warrant.

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

At March 31, 2002, TDS and its subsidiaries are in compliance with all covenants and other requirements set forth in long-term debt indentures. TDS does not have any rating downgrade triggers that would accelerate the maturity dates of its long-term debt. However, a downgrade in TDS's credit rating could adversely affect its ability to renew existing, or obtain access to new, credit facilities in the future.

TDS and its subsidiaries had cash and cash equivalents totaling \$80.8 million at March 31, 2002. TDS had a \$600 million revolving credit facility for general corporate purposes at March 31, 2002, all of which was unused. Borrowings bear interest at the London Interbank Borrowing Rate (LIBOR) plus a contractual spread based on the Company's credit rating. The contractual spread

13

was 30 basis points as of March 31, 2002 (for a rate of 2.18% based on the LIBOR rate at March 31, 2002).

TDS also had \$87 million of bank lines of credit for general corporate purposes at March 31, 2002, all of which was unused. These line of credit agreements provide for borrowings at negotiated rates up to the prime rate (4.75% at March 31, 2002).

U.S. Cellular's capital additions budget for 2002 totals approximately \$620-\$640 million, primarily to add cell sites to expand and enhance coverage, to provide additional digital service capabilities including the initial steps toward the migration to CDMA technology, and to enhance office systems. The conversion to CDMA is expected to be completed by 2004, at an approximate cost of \$400-\$450 million, spread over the next three years. The estimated capital additions in 2002 include \$80-\$95 million related to the conversion. At March 31, 2002, the remaining amount of the capital budget approximated \$520 - \$540 million. U.S. Cellular plans to finance its cellular construction program using primarily internally generated cash and short-term debt. U.S. Cellular's operating cash flow totaled \$639.6 million for the twelve months ended March 31, 2002, up 14% (\$78.5 million) from 2001. In addition, U.S. Cellular had a \$500 million bank revolving line of credit for general corporate purposes at March 31, 2002, \$267.0 million of which was unused. This line of credit provides for borrowings at LIBOR plus a contractual spread, based on U.S. Cellular's credit rating. The contractual spread was 19.5 basis points as of March 31, 2002 (for a rate of 2.08% based on the LIBOR rate at March 31, 2002).

TDS's and U.S. Cellular's interest cost would increase if their credit rating goes down which would increase their cost of financing, but their credit facilities would not cease to be available solely as a result of a decline in their credit rating. However, the continued availability of the revolving credit facilities requires TDS and U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and to represent certain matters at the time of each borrowing. At March 31, 2002, TDS and U.S. Cellular were in compliance with all covenants and other requirements set forth in the credit agreements.

TDS Telecom's capital additions budget for 2002 approximates \$190-\$200 million. The incumbent local telephone companies are expected to spend approximately \$120 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 \$70-\$80 million to build switching and other network facilities to expand its

markets. At March 31, 2002, the remaining amount of the capital budget approximated \$101 million for local telephone companies and \$61-\$71 million for the competitive local exchange companies. TDS Telecom plans to finance its construction program using primarily internally generated cash. TDS Telecom's operating cash flow totaled \$265.5 million for the twelve months ended March 31, 2002, up slightly (\$0.3 million) from 2001.

TDS reviews attractive opportunities to acquire additional telecommunications companies and wireless spectrum, which add value to the business. At March 31, 2002, the Company had agreements to acquire two telephone companies serving 25,500 access lines for aggregate cash consideration of \$72.3 million.

On November 1, 2000, the United States Bankruptcy Court for the Western District of Wisconsin confirmed a plan of financial reorganization for Airadigm Communications, Inc., a Wisconsin-based wireless service provider. Under the terms of the plan of reorganization, TDS and an unrelated entity have committed to provide funding to meet certain obligations of Airadigm. Airadigm continues to operate as an independent company providing wireless services. Pursuant to the plan of reorganization, under certain circumstances and subject to the FCC's rules and regulations, TDS and the unrelated entity, or their respective designees, may each acquire certain PCS licenses for areas of Wisconsin and Iowa as well as other Airadigm assets.

14

As of March 31, 2002, TDS had provided funding of \$53.9 million to Airadigm. Under the plan of reorganization, TDS's portion of the funding and the cost of the assets to be acquired could possibly aggregate up to an additional \$145 million.

U.S. Cellular is a limited partner in a joint venture that was a successful bidder for 17 licenses in 13 markets in the January 2001 FCC spectrum auction. The cost for the 17 licenses totaled \$283.9 million. Legally the general partner controls the joint venture; however, the Company has included the joint venture in its consolidated financial statements because U.S. Cellular is considered to have controlling financial interest for financial reporting purposes under GAAP. In 2001, the joint venture acquired 5 of such licenses in 4 markets for a total of \$4.1 million and had deposits with the FCC totaling \$56.1 million for the remaining licenses (classified as a current asset at March 31, 2002). In May 2002, the FCC refunded 85% of the deposits, or \$47.6 million, and retained the remaining \$8.5 million of deposits pending the outcome of the proceedings discussed below. Subject to the final outcome of such proceedings the joint venture's portion of the funding could possibly aggregate up to an additional \$271.3 million to fund the acquisition of the remaining licenses. In addition, U.S. Cellular has agreed to loan the general partner up to \$20 million that could be used by the general partner to fund its investment in the licenses.

With respect to the remaining 12 licenses in 9 markets, such licenses had been reacquired by the FCC after defaults by winning bidders in a prior auction and were made subject by the FCC to the final outcome of certain legal proceedings initiated by the prior winning bidders. Following the reacquisition, one of the prior winning bidders obtained a court ruling that the FCC's actions were illegal. In response to a request of the U.S. Department of Justice and the FCC, the U.S. Supreme Court has agreed to review this court ruling. In the event the prior winning bidder is successful in this litigation, the joint venture would receive a refund of its remaining deposit of \$8.5 million made to the FCC for such 12 licenses. The joint venture's financial requirements would then be limited to the 5 licenses in 4 markets that it acquired in 2001. If the FCC is successful in this litigation or the matter is otherwise resolved in a manner that will permit the joint venture to acquire the remaining licenses, the joint venture would be required to pay to the FCC the balance of the auction price for such licenses. The joint venture would then have significant financial requirements to build out such markets. The exact nature of U.S. Cellular's financial commitment going forward will be determined as the joint venture develops its long-term business and financing plans.

TDS and U.S. Cellular may continue the repurchase of their common shares, as market conditions warrant, on the open market or at negotiated prices in private transactions. The repurchase programs are intended to create value for the shareholders. The repurchases of common shares will be funded by internal cash flow, supplemented by short-term borrowings.

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

TDS holds various investments in publicly traded companies valued at \$2,286.8 million as of March 31, 2002. These assets are classified for financial reporting purposes as available-for-sale securities. TDS may purchase additional shares, sell or transfer shares in public or private

15

transactions and/or may enter into privately negotiated derivative transactions to hedge the market risk of some or all of its positions in the securities. See Note 10 to Notes to Consolidated Financial Statements for information about subsequent events.

Financing of Chicago 20MHz Acquisition

Under the Purchase and Sale Agreement with PrimeCo, within 110 days of the date of the agreement, U.S. Cellular is required to use commercially reasonable efforts to (i) obtain senior bank financing on the terms and conditions set forth in certain letters that it has received from a group of lenders and (ii) issue and sell debt securities pursuant to an engagement letter with an investment

banking firm on terms and conditions acceptable to U.S. Cellular in its sole discretion.

The acquisition price of approximately \$610 million will be financed through various sources including bank and bond financing. Additionally, U.S. Cellular plans to invest approximately \$90 million in the business of Chicago 20MHz during the first year following the acquisition. This capital investment would include an upgrade and expansion of the Chicago 20MHz network as well as an increase to its marketing distribution. U.S. Cellular intends to obtain a five-year \$250 million new credit facility and file a \$500 million debt shelf registration statement on Form S-3, with the intent to sell various debt securities. U.S. Cellular is also contemplating other possible sources of financing.

U.S. Cellular has received letters from certain lenders relating to the terms of a new credit facility, which would be in addition to its existing \$500 million revolving credit facility discussed previously and would be entered into in connection with the acquisition of Chicago 20MHz. This would be a five-year facility of \$250 million, with the option to increase the new credit facility by up to \$100 million to a maximum amount of \$350 million on a single occasion at any time on or prior to the 90th day following the effectiveness of that facility. The credit facility terminates on December 1, 2002 if the acquisition of Chicago 20MHz is not completed by that date. Such facility would permit revolving loans on terms and conditions substantially similar to U.S. Cellular's existing revolving credit facility, except for the interest rate and certain additional provisions. The terms of the new revolving credit facility would provide for borrowings with interest at LIBOR plus a margin percentage based on U.S. Cellular's credit rating. Based on its current credit rating, the margin percentage would be 55 basis points

(for a rate as of March 31, 2002 of 2.43%). In addition, the completion of such facility will require U.S. Cellular to have received ratings on its unsecured credit facilities that are not below BBB+ by Standard and Poor's and not below Baa1 by Moody's after giving pro forma effect to the acquisition of Chicago 20MHz and all financing and other transactions related thereto. Also, U.S. Cellular will need to comply with the certain financial covenants. The covenants include limitations on the ratios of funded debt to capitalization, earnings before interest taxes depreciation and amortization (EBITDA) to interest expense, and funded debt to EBITDA.

The new credit facility places other requirements on U.S. Cellular, including the sale or placement of at least \$250 million of debt securities on terms reasonably satisfactory to the lenders.

In connection with the acquisition of Chicago 20MHz, U.S. Cellular expects to file with the SEC a shelf registration statement on Form S-3 to register the issuance from time to time of up to \$500 million of senior debt securities. After the registration statement is declared effective by the SEC, U.S. Cellular expects to seek to issue at least \$250 million of senior debt securities under such registration statement. However, there can be no assurance that U.S. Cellular will be able to do so on terms and conditions that are acceptable to U.S. Cellular.

If U.S. Cellular is unable to obtain sufficient financing from the foregoing or other sources on terms acceptable to U.S. Cellular within 110 days of the date of the definitive agreement with

16

PrimeCo, either U.S. Cellular or PrimeCo may terminate such agreement and, in such event, U.S. Cellular would be required to pay PrimeCo a termination fee of \$10 million.

U.S. Cellular is continuing to evaluate all potential financing options related to the acquisition of Chicago 20 MHz, including debt and equity financing and the use of current marketable equity securities.

See Note 10 to Notes to Consolidated Financial Statements for information about subsequent events.

MARKET RISK

TDS is subject to market rate risks due to fluctuations in interest rates and equity markets. The majority of TDS's debt is in the form of long-term, fixed-rate notes, convertible debt, debentures and trust securities with original maturities ranging up to 40 years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of such instruments. As of March 31, 2002, TDS had not entered into any significant financial derivatives to reduce its exposure to interest rate risks.

TDS maintains a portfolio of available-for-sale marketable equity securities. The market value of these investments aggregated \$2,286.8 million at March 31, 2002 and \$2,700.2 million at December 31, 2001. A hypothetical 10% decrease in the share prices of these investments at March 31, 2002 would result in a \$228.7 million decline in the market value of the investments. As of March 31, 2002, the net unrealized holding loss, net of tax and minority interest, included in accumulated other comprehensive loss totaled \$571.4 million following the recognition in net income of a loss related to TDS's investment in VeriSign of \$22.6 million, net of tax, as a result of management's determination that unrealized losses with respect to this investment were other than temporary. As of March 31, 2002, management did not consider the remaining unrealized loss to be other than temporary. Management continues to review the valuation of the investments on a periodic basis. If management determines in the future that the unrealized loss is other than temporary, the loss will be recognized and recorded in the statement of operations.

In May 2002, TDS entered into a contract with a third party relating to its ownership of 2.4 million shares of VeriSign, Inc. The contract, which is known as a variable prepaid forward, provides a collar to the stock price for

five years and allowed TDS to borrow approximately \$19 million against the stock. This contract will be accounted for as a fair value hedge. At the expiration of the contract, TDS may settle the contract by delivering cash or VeriSign shares.

TDS and U.S. Cellular continue to evaluate all potential financing options related to the acquisition of Chicago 20 MHz, including debt and equity financing and the use of their other marketable equity securities. The Company is evaluating the different options for the use of the marketable securities. Based upon the type of transactions that may be entered into considered together with the factors reviewed by management described below in Critical Accounting Policies and Estimates, a portion of the unrealized holding loss, which totaled \$571.4 million net of tax and minority interest at March 31, 2002, may have to be recognized and recorded in the statement of operations. See Note 10 to Notes to Consolidated Financial Statements for information about subsequent events.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Management believes the following critical accounting policies reflect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

The Company holds a substantial amount of marketable securities that are publicly traded and can have volatile share prices. The marketable securities are marked to market each period with the change in value of the securities reported as Other Comprehensive Income, net of income taxes and minority interest, which is included in the stockholders' equity section of the balance sheet. If management determined that the decline in value of the marketable securities was other than temporary, the unrealized loss included in other comprehensive income would be recognized and recorded as a loss in the statement of operations. Factors that management reviews in determining an other than temporary decline include whether there has been a significant change in the financial condition, operational structure or near-term prospects of the issuer; how long the security has been below historical cost; 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 historical cost levels. TDS is in the same industry classification as the issuers of its marketable securities enhancing the Company's ability to evaluate the effects of any changes in industry-specific factors which may affect the determination of whether a decline in market values of its marketable securities is other than temporary. There can be no assurance that upon review of such factors at a later date a material loss will not be recognized in the statement of operations. See Market Risk for further discussions. See also Note 10 to Notes to Consolidated Financial Statements for information about subsequent events.

In the first quarter of 2002, TDS determined that the decline in value of its investment in VeriSign, Inc. relative to its cost basis was other than temporary. A loss on the securities of \$37.4 million was recorded in the statement of operations, reducing net income and earnings per diluted share by \$22.6 million and \$.38, respectively.

TDS has substantial investments in long-lived assets, including substantial amounts of intangible assets, primarily cellular license costs and goodwill, as a result of acquisitions of wireless markets and licenses, and

telephone companies. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company 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.

TDS adopted SFAS No. 142, Goodwill and Other Intangible Assets, on January 1, 2002, and no longer amortizes license costs and goodwill. In connection with SFAS No. 142, TDS assessed its recorded balances of license costs and goodwill for potential impairment. The Company completed its initial impairment assessments in the first quarter of 2002. The Company was not required to record an impairment

18

charge upon the completion of the initial impairment review. An impairment review is required annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. There can be no assurance that upon reviews at a later date material impairment charges will not be required.

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. TDS considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. If it were determined that TDS would be able to realize the deferred tax asset in excess of its net recorded amount, an adjustment to deferred tax assets would increase income. Likewise, if it were determined that TDS would not be able to realize the net deferred tax asset amount, an adjustment to deferred tax assets would reduce income.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 SAFE HARBOR CAUTIONARY STATEMENT

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

- *Increases in the level of competition in the markets in which TDS operates could adversely affect TDS's revenues or increase its costs to compete.*
- *Advances or changes in telecommunications technology could render certain technologies used by TDS obsolete.*
- *Changes in telecommunications regulatory environment could adversely affect TDS's financial condition or results of operations.*
- *Changes in the supply or demand of the market for wireless licenses or telephone companies, increased competition, adverse developments in the TDS's businesses or the industries in which TDS is involved and/or other factors could result in an impairment of the value of TDS's license costs and/or goodwill, which may require TDS to record a write down in the value of such assets.*
- *Competition, construction delays and other challenges in executing TDS's expansion and development of its CLEC business could result in higher than planned losses, additional financing requirements and/or the write down of the CLEC assets if TDS is unable to successfully implement its plans in this business undertaking.*
- *Continued depressed market values, continued declines thereof or other events evidencing an impairment in the value of TDS's investments in available-for-sale marketable equity securities that are*

other than temporary may require TDS to write down the value of such securities.

- *Settlement, judgments, restraints on its current manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on TDS' s financial condition, results of operations or ability to do business.*
- *Costs, integration problems or other factors associated with acquisitions/divestitures of properties and/or licenses could have an adverse effect on TDS' s financial condition or results of operations.*
- *Changes in growth in the number of wireless customers, average revenue per unit, penetration rates, churn rates, roaming rates and the mix of products and services offered in wireless markets could have an adverse effect on TDS' s wireless business operations.*

19

- *Changes in growth in the number of ILEC and CLEC customers, churn rates and mix of products and services offered in ILEC and CLEC markets could have an adverse effect on such TDS business segments.*
- *Changes in market conditions or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development and acquisition programs.*
- *Changes in circumstances or other events, including failure to obtain necessary financing, could result in the failure of one or more conditions to the consummation of the acquisition of Chicago 20MHz, in which event such acquisition may not be completed or, if it is completed, costs, integration problems or other factors associated with such acquisition could have an adverse effect on TDS' s financial condition or results of operations.*
- *Changes in general economic and business conditions, both nationally and in the regions in which TDS operates, could have an adverse effect on TDS' s businesses.*

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

20

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited

	Three Months Ended March 31,	
	2002	2001
	(Dollars in thousands, except per share amounts)	
OPERATING REVENUES		
U.S. Cellular	\$ 478,420	\$ 439,769
TDS Telecom	186,777	160,600
	665,197	600,369
OPERATING EXPENSES		
U.S. Cellular	399,574	381,286
TDS Telecom	161,085	128,593

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	560,659	509,879
	-----	-----
OPERATING INCOME	104,538	90,490
	-----	-----
INVESTMENT AND OTHER INCOME		
Interest and dividend income	2,067	5,522
Investment income, net of amortization	11,045	6,965
Gain (loss) on marketable securities and other investments	(37,400)	--
Other income (expense), net	1,197	1,988
	-----	-----
	(23,091)	14,475
	-----	-----
INCOME BEFORE INTEREST AND INCOME TAXES	81,447	104,965
Interest expense	29,623	28,957
Minority interest in income of subsidiary trust	6,203	6,203
	-----	-----
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	45,621	69,805
Income tax expense	22,085	30,614
	-----	-----
INCOME BEFORE MINORITY INTEREST	23,536	39,191
Minority Share of (Income)	(9,939)	(7,969)
	-----	-----
INCOME BEFORE EXTRAORDINARY ITEM	13,597	31,222
Extraordinary Item - loss on extinguishment of debt, net of minority interest	--	(2,988)
	-----	-----
NET INCOME	13,597	28,234
Preferred Dividend Requirement	(112)	(118)
	-----	-----
NET INCOME AVAILABLE TO COMMON	\$ 13,485	\$ 28,116
	=====	=====
BASIC WEIGHTED AVERAGE COMMON SHARES (000s)	58,600	58,718
BASIC EARNINGS PER SHARE (Note 7)		
Income before Extraordinary Item	\$ 0.23	\$ 0.53
Extraordinary Item - loss on extinguishment of debt	--	(0.05)
	-----	-----
Net income available to common	\$ 0.23	\$ 0.48
	=====	=====
DILUTED EARNINGS PER SHARE (Note 7)		
Income before Extraordinary Item	\$ 0.23	\$ 0.52
Extraordinary Item - loss on extinguishment of debt	--	(0.05)
	-----	-----
Net income available to common	\$ 0.23	\$ 0.47
	-----	-----
DIVIDENDS PER SHARE	\$.145	\$.135
	=====	=====

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

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

	Three Months Ended March 31,	
	2002	2001
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before extraordinary item	\$ 13,597	\$ 31,222
Add (Deduct) adjustments to reconcile income to net cash provided by operating activities		
Depreciation and amortization	111,900	106,937
Deferred taxes	(5,899)	12,585
Investment income	(11,037)	(7,679)
Minority share of income	9,939	7,969
(Gain) loss on marketable securities and other investments	37,400	--
Noncash interest expense	2,293	2,843
Other noncash expense	4,055	3,729
Changes in assets and liabilities from operations		
Change in accounts receivable	23,071	34,522
Change in materials and supplies	23,671	10,693
Change in accounts payable	(37,826)	(36,441)
Change in accrued interest	(6,117)	(12,511)
Change in accrued taxes	25,989	13,963
Change in other assets and liabilities	(7,943)	(3,991)
	183,093	163,841
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(128,328)	(151,345)
Acquisitions, net of cash acquired	(17,585)	(60,814)
Investments in and advances to unconsolidated-entities	(326)	(949)
Distributions from investments	4,139	3,620
Other investing activities	(5,425)	(4,074)
	(147,525)	(213,562)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	610	360
Repayments of long-term debt	(4,183)	(3,915)
Prepayment of medium-term notes	(51,000)	--
Change in notes payable	(31,000)	36,500
Dividends paid	(8,617)	(8,053)
Repurchase of TDS Common Shares	--	(13,461)
Repurchase of U.S. Cellular Common Shares	--	(10,992)
Repurchase and conversion of LYONS	(70)	(10,778)
Other financing activities	(1,217)	55
	(95,477)	(10,284)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(59,909)	(60,005)
CASH AND CASH EQUIVALENTS -		
Beginning of period	140,744	99,019
End of period	\$ 80,835	\$ 39,014

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

22

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

	Restated - See Note 3 (Unaudited) March 31, 2002	December 31, 2001
	-----	-----
	(Dollars in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	\$ 80,835	\$ 140,744
Accounts receivable from customers and others, net	356,583	379,161
Deposits receivable from FCC	56,060	56,060
Materials and supplies, at average cost	48,309	71,370
Other current assets	30,992	27,021
	-----	-----
	572,779	674,356
	-----	-----
INVESTMENTS		
Marketable equity securities	2,286,804	2,700,230
Cellular license costs, net of accumulated amortization	874,764	858,791
Goodwill, net of accumulated amortization	838,076	838,020
Investments in unconsolidated entities	238,429	233,678
Notes receivable	103,539	101,887
Other investments	13,643	15,078
	-----	-----
	4,355,255	4,747,684
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, NET		
U.S. Cellular	1,557,846	1,527,805
TDS Telecom	1,005,664	1,016,634
	-----	-----
	2,563,510	2,544,439
	-----	-----
OTHER ASSETS AND DEFERRED CHARGES		
	85,685	80,313
	-----	-----
TOTAL ASSETS	\$7,577,229	\$8,046,792
	=====	=====

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

23

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

	(Unaudited) March 31, 2002	December 31, 2001
	-----	-----
	(Dollars in thousands)	
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 18,879	\$ 67,461
Notes payable	234,300	265,300
Accounts payable	232,627	270,005
Advance billings and customer deposits	72,474	68,044
Accrued interest	18,147	24,264
Accrued taxes	40,394	14,263
Accrued compensation	47,416	56,973
Other current liabilities	50,688	49,906
	-----	-----
	714,925	816,216
	-----	-----
DEFERRED LIABILITIES AND CREDITS	1,275,369	1,428,748
	-----	-----
LONG-TERM DEBT, excluding current portion	1,503,783	1,507,764
	-----	-----
MINORITY INTEREST in subsidiaries	468,366	467,698
	-----	-----
COMPANY-OBLIGATED MANDATORILY REDEEMABLE		
PREFERRED SECURITIES of Subsidiary Trusts		
Holding Solely Company Subordinated Debentures (a)	300,000	300,000
	-----	-----
PREFERRED SHARES	7,077	7,442
	-----	-----
COMMON STOCKHOLDERS' EQUITY		
Common Shares, par value \$.01 per share	558	557
Series A Common Shares, par value \$.01 per share	67	68
Capital in excess of par value	1,828,452	1,826,840
Treasury Shares, at cost		
(3,830,000 shares and 3,868,000 shares, respectively)	(405,375)	(406,894)
Accumulated other comprehensive income (loss)	(571,445)	(352,120)
Retained earnings	2,455,452	2,450,473
	-----	-----
	3,307,709	3,518,924
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$7,577,229	\$8,046,792
	=====	=====

(a) The sole asset of TDS Capital I is \$154.6 million principal amount of 8.5% subordinated debentures due 2037 from TDS. The sole asset of TDS Capital II is \$154.6 million principal amount of 8.04% subordinated debentures due 2038 from TDS.

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

1. Basis of Presentation

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

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position as of March 31, 2002 and December 31, 2001, and the results of operations and cash flows for the three months ended March 31, 2002 and 2001. The results of operations for the three months ended March 31, 2002 and 2001, are not necessarily indicative of the results to be expected for the full year.

Certain amounts reported in prior years have been reclassified to conform to current period presentation.

2. Marketable Equity Securities

Marketable equity securities include the Company's investments in equity securities, primarily Deutsche Telekom AG ordinary shares, Vodafone AirTouch plc American Depositary Receipts, Rural Cellular Corporation preferred and common shares and Verisign, Inc. common shares. These securities are classified as available-for-sale and stated at fair market value.

Information regarding the Company's marketable equity securities is summarized below.

	March 31, 2002	December 31, 2001
	-----	-----
	(Dollars in thousands)	
Available-for-sale Equity Securities		
Aggregate Fair Value	\$ 2,286,804	\$ 2,700,230
Adjusted Basis	3,302,934	3,303,106
	-----	-----
Gross Holding Losses	(1,016,130)	(602,876)
Tax Effect	398,986	236,331
	-----	-----
Holding Losses, net of tax	(617,144)	(366,545)
Realized loss, net of tax	22,646	--
Equity Method Unrealized Gains	397	397
Minority Share of Unrealized Holding Losses	22,656	14,028
	-----	-----
Net Unrealized Holding Losses	\$ (571,445)	\$ (352,120)
	=====	=====

In the quarter ended March 31, 2002, management determined that the unrealized loss of the VeriSign investment was other than temporary, and charged a \$37.4 million loss (\$22.6 million, net of tax) to the statement of operations.

3. Investment in Licenses and Goodwill (as restated)

The Company has amended its presentation of intangible assets to separately disclose certain investments in licenses and goodwill. Prior periods have been revised to conform to the current period presentation.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 142 Goodwill and Other Intangible Assets on January 1, 2002, and no longer amortizes license costs and goodwill .

The changes in the carrying amount of license costs for the quarters ended March 31, 2002 and 2001, were as follows:

	Restated ----- Three Months Ended March 31, -----	
	2002	2001
	----- (Dollars in thousands) -----	
Beginning Balance	\$ 858,791	\$ 857,608
Additions and disposals during the quarter	15,973	2,145
Amortization during quarter	--	(6,474)
Ending Balance	\$ 874,764 =====	\$ 853,279 =====

The changes in the carrying amount of goodwill for the quarters ended March 31, 2002 and 2001, were as follows:

	Restated ----- Three Months Ended March 31, -----	
	2002	2001
	----- (Dollars in thousands) -----	
Beginning Balance	\$ 439,832	\$ 366,822
Additions and disposals during the quarter	--	52,357
Amortization during quarter	--	(2,769)
Ending Balance	\$ 439,832 =====	\$ 416,410 =====

The U.S. Cellular goodwill is related to various acquisitions structured to be tax-free. No deferred taxes have been provided on this goodwill.

The changes in the carrying amount of goodwill at TDS Telecom for the quarters ended March 31, 2002 and 2001, were as follows:

Restated

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(Dollars in thousands)	ILEC	CLEC	Other	Total
Beginning Balance January 1, 2002	\$ 332,848	\$ 29,440	\$35,900	\$ 398,188
Net additions	56	--	--	56
Ending Balance March 31, 2002	\$ 332,904	\$ 29,440	\$35,900	\$ 398,244
Beginning Balance January 1, 2001	\$ 210,320	\$ 7,436	\$36,974	\$ 254,730
Net additions	62	--	--	62
Amortization	(1,665)	(56)	(269)	(1,990)
Ending Balance March 31, 2001	\$ 208,717	\$ 7,380	\$36,705	\$ 252,802

(1) Other consists of goodwill related to an investment in a cellular market owned by an ILEC subsidiary.

The Company's investment in unconsolidated entities also included goodwill of \$66.6 million at March 31, 2002 and December 31, 2001.

27

Pursuant to SFAS No. 142, the Company assessed its recorded balances of cellular license costs and goodwill for potential impairment in the first quarter of 2002. Management determined that no impairment charge needed to be recorded as of January 1, 2002. Income before extraordinary item and net income adjusted to exclude license costs and goodwill amortization expense, net of tax, recognized in the three months ended March 31, 2002 and 2001 is summarized below.

(Dollars in thousands)	Restated March 31, 2002	March 31, 2001
Income before Extraordinary Item	\$ 13,597	\$ 31,222
Amortization adjustment net of tax and minority interest effect of:		
License cost	--	3,599
Goodwill	--	2,694
Equity method goodwill	--	331
Adjusted Income	\$ 13,597	\$ 37,846
Extraordinary item - loss on extinguishment of debt	--	(2,988)
Adjusted Net Income	\$ 13,597	\$ 34,858
Basic earnings per share:		
Income before Extraordinary Item	\$.23	\$.53
Amortization of license costs	--	.06
Amortization of goodwill	--	.05
Extraordinary item	--	(.05)
Adjusted Net Income	\$.23	\$.59

Diluted earnings per share:

Income before Extraordinary Item	\$.23	\$.52
Amortization of license costs	--	.06
Amortization of goodwill	--	.05
Extraordinary item	--	(.05)
	-----	-----
Adjusted Net Income	\$.23	\$.58
	=====	=====

4. Common Stockholders' Equity

The TDS Board of Directors authorized the repurchase of up to 4.0 million TDS Common Shares in 2000. As of March 31, 2002, TDS has repurchased 2,991,000 common shares under this program. The Company repurchased 110,000 shares in the first three months of 2001. No shares were repurchased in the first quarter 2002.

5. Other Comprehensive Income (Loss)

The Company's Comprehensive Income (Loss) includes Net Income and Unrealized Gains (Losses) from Marketable Equity Securities that are classified as available-for-sale. The following table summarizes the Company's Comprehensive Income (Loss).

	Three Months Ended March 31,	
	2002	2001
	-----	-----
	(Dollars in thousands)	
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	\$ (352,120)	\$ (178,344)
	-----	-----
Add (Deduct):		
Net unrealized gains (losses) on securities	(413,254)	(388,358)
Income tax effect	162,657	152,409
	-----	-----
	(250,597)	(235,949)
Minority share of unrealized (gains) losses	8,626	9,591
	-----	-----
Net unrealized gains (losses)	(241,971)	(226,358)
	-----	-----
Deduct (Add):		
Recognized loss	(37,400)	--
Income tax effect	14,754	--
	-----	-----
	(22,646)	--
	-----	-----
Net change in unrealized gains (losses) included In comprehensive income	(219,325)	(226,358)
	-----	-----
Balance, end of period	\$ (571,445)	\$ (404,702)
	=====	=====

	Three Months Ended March 31,	
	2002	2001
	----- (Dollars in thousands) -----	
Comprehensive Income (Loss)		
Net Income	\$ 13,597	\$ 28,234
Net change in unrealized gains (losses) on securities	(219,325)	(226,358)
	-----	-----
	\$ (205,728)	\$ (198,124)
	=====	=====

6. Extraordinary Item - Loss on Extinguishment of Debt

U.S. Cellular retired Liquid Yield Option Notes (LYONs) with a carrying value of \$15.8 million for \$12.0 million in cash and 162,000 U.S. Cellular Common Shares in the first three months of 2001. A loss, net of minority interest, of \$3.0 million, or \$.05 per diluted share in the first quarter was recorded to account for the difference between the purchase price and the carrying value of the LYONs repurchases for cash.

29

7. Earnings Per Share

The amounts used in computing Earnings per Common Share 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:

Basic Earnings Per Share:

	Three Months Ended March 31,	
	2002	2001
	----- (Dollars in thousands, except per share amounts) -----	
Income before Extraordinary Item	\$ 13,597	\$ 31,222
Less: Preferred Dividends	(112)	(118)
	-----	-----
Net Income Available to Common Used in Basic Earnings Per Share	13,485	31,104
Extraordinary Item - loss on extinguishment of debt	--	(2,988)
	-----	-----
Net Income Available to Common used in Basic Earnings Per Share	\$ 13,485	\$ 28,116
	=====	=====
Weighted Average Number of Common Shares Used in Basic Earnings Per Share	58,600	58,718
	=====	=====
Basic Earnings Per Common Share		
Income before Extraordinary Item	\$ 0.23	\$ 0.53
Extraordinary Item - loss on extinguishment of debt	--	(0.05)

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	----- \$ 0.23 =====	----- \$ 0.48 =====
	Three Months Ended March 31,	
	----- 2002 -----	----- 2001 -----
	(Dollars in thousands, except per share amounts)	
Diluted Earnings Per Share:		
Income Available to Common Used in Basic Earnings Per Share	\$ 13,485	\$ 31,104
Reduction in Preferred Dividends if Preferred Shares Converted into Common Shares	--	58
Minority Income Adjustment	(78)	(151)
	-----	-----
Net Income Available to Common used in Diluted Earnings Per Share	13,407	31,011
Extraordinary Item - loss on extinguishment of debt	--	(2,988)
	-----	-----
Net Income Available to Common Used in Diluted Earnings Per Share	\$ 13,407	\$ 28,023
	=====	=====
Weighted Average Number of Common Shares Used in Basic Earnings Per Share	58,600	58,718
Effect of Dilutive Securities		
Common Shares Outstanding if Preferred Shares Converted	--	174
Stock Options	288	370
	-----	-----
Weighted Average Number of Common Shares Used in Diluted Earnings Per Share	58,888	59,262
	=====	=====
Diluted Earnings Per Common Share		
Income before Extraordinary Item	\$ 0.23	\$ 0.52
Extraordinary Item - loss on extinguishment of debt	--	(0.05)
	-----	-----
	\$ 0.23	\$ 0.47
	=====	=====

30

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

8. Supplemental Cash Flow Information

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

The following table summarizes interest and income taxes paid.

	Three Months Ended March 31,	
	2002	2001
	(Dollars in thousands)	
Interest Paid	\$ 33,097	\$ 38,447
Income Taxes Paid	\$ 6,457	\$ 7,707

9. Discontinued Operations

On May 4, 2000, Aerial Communications Inc., TDS then 80%-owned personal communication services company, merged with VoiceStream Wireless. In conjunction with the settlement of this merger, TDS recorded a loss from discontinued operations of \$24.1 in the fourth quarter of 2001. The liabilities associated with this settlement remain on the balance sheet as of March 31, 2002 and are included in accounts payable, other current liabilities and deferred liabilities and credits as noted below:

Accounts Payable	\$ 6,083
Other Current Liabilities	11,585
Deferred Liabilities and Credits	6,423
Total	\$ 24,091

10. Subsequent Events

Acquisition of Chicago 20 MHz:

On May 10, 2002, U.S. Cellular announced that it entered into a definitive agreement with PrimeCo Wireless Communications LLC (PrimeCo) to acquire from PrimeCo all of the equity interests in Chicago 20MHz, LLC, including the assets and certain liabilities of Chicago 20MHz. Chicago 20MHz operates the PrimeCo wireless system in the Chicago Major Trading Area (MTA). Chicago 20MHz is the holder of certain FCC licenses, including a 20 megahertz PCS license in the Chicago MTA (excluding Kenosha County, Wis.) covering 13.1 million population equivalents (POPs). The purchase price is approximately \$610 million in cash, subject to certain working capital and other adjustments, plus the assumption of certain liabilities at closing. U.S. Cellular intends to finance the purchase price through various sources including bank and bond financing. The transaction is subject to certain conditions, including governmental and regulatory approvals and the completion of \$500 million in debt financing, and is expected to close in the third quarter of 2002.

Marketable Securities:

In May 2002, TDS entered into a contract with a third party relating to its ownership of 2.4 million shares of VeriSign, Inc. The contract, which is known as a variable prepaid forward, provides a collar to the stock price for five years and allowed TDS to borrow approximately \$19 million against the stock. This contract will be accounted for as a fair value hedge. At the expiration of the contract, TDS may settle the contract by delivering cash or VeriSign shares.

Monetization of Vodafone ADRs:

On May 23, 2002, U.S. Cellular announced that it had entered into contracts with multiple parties relating to its ownership of 10,245,370 Vodafone AirTouch plc American Depositary Receipts ("ADRs"). The contracts, which have a term of five years, are known as variable prepaid forwards and collar or limit the company's exposure to movements in the price of the ADRs. Initial proceeds from these transactions of approximately \$160 million in cash will provide funding for U.S. Cellular's pending acquisition of the Chicago PrimeCo Wireless Communications LLC property. At the expiration of the contracts, U.S. Cellular may settle the contracts by delivering Vodafone ADRs or an equivalent amount of cash. There are no taxes payable upon entering into these contracts.

Recognition of Other Than Temporary Investment Loss:

On June 12, 2002, the Company announced that it will recognize in its statement of operations an other than temporary investment loss of approximately \$1,020 million, net of tax and minority interest, in the second quarter ending June 30, 2002. The recognition of this loss has no impact on second quarter cash flows. The Company marks to market the value of its marketable equity securities on a regular basis so that its balance sheet always reflects the current market value of those securities. Management continues to review the valuation of the investments on a periodic basis.

11. Business Segment Information

Financial data for the Company's business segments for each of the three month periods ended or at March 31, 2002 and 2001 are as follows:

Three Months Ended or at March 31, 2002	TDS Telecom				
(Dollars in thousands)	U.S. Cellular	ILEC	CLEC	All Other(1)	Total
Operating revenues	\$ 478,420	\$ 149,521	\$ 37,754	\$ (498)	\$ 665,197
Operating cash flow(2)	151,598	72,972	(8,133)	--	216,437
Depreciation and amortization Expense(3)	72,752	32,455	6,692	--	111,899
Operating income (loss)	78,846	40,517	(14,825)	--	104,538
Significant noncash items:					
Investment income, net	10,469	236	--	340	11,045
Gain (loss) on marketable Securities and other investments	--	--	--	(37,400)	(37,400)
Marketable securities	190,815	--	--	2,095,989	2,286,804
Total assets	3,661,870	1,421,129	214,566	2,279,664	7,577,229
Investment in unconsolidated Entities	164,802	48,556	--	25,071	238,429
Capital expenditures	\$ 100,075	\$ 19,194	\$ 9,059	\$ --	\$ 128,328
Three Months Ended or at March 31, 2001	TDS Telecom				
(Dollars in thousands)	U.S. Cellular	ILEC	CLEC	All Other(1)	Total
Operating revenues	\$ 439,769	\$ 134,444	\$ 26,617	\$ (461)	\$ 600,369
Operating cash flow(2)	129,822	70,181	(2,576)	--	197,427
Depreciation and amortization Expense(3)	71,339	32,400	3,198	--	106,937
Operating income (loss)	58,483	37,781	(5,774)	--	90,490

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Significant noncash items:

Investment income, net	6,705	146	--	114	6,96
Gain (loss) on marketable Securities and other investments	--	--	--	--	--
Marketable securities	288,616	--	--	3,444,931	3,733,54
Total assets	3,355,192	1,183,236	136,810	3,592,708	8,267,94
Investment in unconsolidated Entities	137,065	24,660	--	19,613	181,33
Capital expenditures	\$ 120,410	\$ 12,847	\$ 18,088	\$ --	\$ 151,34

(1) Consists of the TDS Corporate operations, TDS Telecom intercompany eliminations, TDS Corporate and TDS Telecom marketable equity securities and all other businesses not included in the U.S. Cellular or TDS Telecom segments.

(2) Operating cash flow is operating income plus depreciation and amortization.

(3) Depreciation and amortization for the three months ended March 31, 2001, includes license cost and goodwill amortization expense of \$9.2 million for U.S. Cellular, \$1.7 million for the ILEC and \$56,000 for the CLEC. The three months ended March 31, 2002 does not include amortization of license costs or goodwill in accordance with SFAS No. 142.

33

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

TDS is involved in a number of legal proceedings before the FCC and various state and federal courts. Management does not believe that any such proceeding should have a material adverse impact on the financial position or results of operations of TDS.

On April 11, 2000, two affiliates of U.S. Cellular, along with two unrelated wireless carriers, filed a declaratory judgment action in the United States District Court for the Northern District of Iowa against the Iowa Attorney General. This action was in response to the Attorney General's ongoing investigation of certain wireless industry practices involving wireless service agreements and related matters. The suit by U.S. Cellular and the other wireless carriers sought to have certain state laws declared inapplicable to wireless service agreements and such practices. In response, the Iowa Attorney General filed suit in the Iowa State District Court for Polk County against U.S. Cellular, alleging violations of various state consumer credit and other consumer protection laws. The parties settled their disputes and agreed to entry of a consent judgment and both cases have been dismissed. U.S. Cellular paid \$400,000 to the State of Iowa and agreed to certain business conduct restrictions, although it will continue to use term contracts with early termination provisions.

Item 5. Exhibits and Reports on Form 8-K.

(a) Exhibits

- (i) Exhibit 2 - Purchase and Sale Agreement dated May 9, 2002 between U.S. Cellular and PrimeCo Wireless Communications, LLC. is hereby incorporated by reference to Exhibit 2 to United States Cellular Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.
- (ii) Exhibit 11 - Computation of earnings per common share is included herein as footnote 7 to the financial statements.
- (iii) Exhibit 12 - Statement regarding computation of ratios is incorporated by reference to the previously filed Quarterly Report on Form 10-Q for the period ended March 31, 2002.
- (iv)

Exhibit 99 - Copy of press release relating to Chicago 20 MHz is incorporated by reference to the previously filed Quarterly Report on Form 10-Q for the period ended March 31, 2002.

(b) Reports on Form 8-K filed during the quarter ended March 31, 2002:

None

34

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TELEPHONE AND DATA SYSTEMS, INC.
(Registrant)

Date June 28 , 2002

/s/ Sandra L. Helton

Sandra L. Helton,
Executive Vice President and
Chief Financial Officer

Date June 28 , 2002

/s/ D. Michael Jack

D. Michael Jack,
Vice President and Controller
(Principal Accounting Officer)

Signature page for the TDS 2002 First Quarter Form 10-Q /A