

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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 2)

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

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

For the quarterly period ended June 30, 2003

OR

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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
(State or other jurisdiction of
incorporation or organization)

36-2669023
(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**

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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 June 30, 2003
Common Shares, \$.01 par value	50,934,645 Shares
Series A Common Shares, \$.01 par value	6,430,365 Shares

EXPLANATORY NOTE

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

This amendment does not amend any other Items except those indicated above and does not update any of the disclosures contained in the Quarterly Report as previously amended except as expressly provided herein. The filing of this Form 10-Q/A shall not be deemed an admission that the original or amended filings, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

TELEPHONE AND DATA SYSTEMS, INC.

2nd QUARTER REPORT ON FORM 10-Q/A

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PART I. FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTSTELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF OPERATIONSUnaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003 (As Restated)	2002 (As Restated)	2003 (As Restated)	2002 (As Restated)
	(Dollars in thousands, except per share amounts)			
OPERATING REVENUES	\$ 851,287	\$ 720,443	\$ 1,658,705	\$ 1,385,640
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation, amortization and accretion expense shown below)	263,188	209,608	525,586	399,430
Selling, general and administrative expense	347,575	271,907	684,076	530,016
Depreciation, amortization and accretion expense	144,902	115,636	296,129	227,535
(Gain) Loss on assets held for sale	3,500		27,000	
	759,165	597,151	1,532,791	1,156,981
OPERATING INCOME	92,122	123,292	125,914	228,659
INVESTMENT AND OTHER INCOME (EXPENSE)				
Interest and dividend income	6,069	48,167	10,397	50,234
Investment income	13,517	7,752	26,267	18,789
Gain (loss) on marketable securities and other investments	(5,000)	(1,719,126)	(8,500)	(1,756,526)
Interest expense	(43,996)	(29,095)	(87,353)	(58,719)
Minority interest in income of subsidiary trust	(6,202)	(6,202)	(12,405)	(12,405)
Other (expense), net	(7,097)	(1,223)	(5,938)	(17)
	(42,709)	(1,699,727)	(77,532)	(1,758,644)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	49,413	(1,576,435)	48,382	(1,529,985)
Income tax expense (benefit)	23,623	(609,530)	27,447	(587,118)
INCOME (LOSS) BEFORE MINORITY INTEREST	25,790	(966,905)	20,935	(942,867)
Minority Share of (Income) Loss	(6,294)	15,115	(6,451)	5,087
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	19,496	(951,790)	14,484	(937,780)

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Cumulative effect of accounting changes, net of tax and minority interest				(11,789)			3,366
NET INCOME (LOSS)	19,496	(951,790)	2,695				(934,414)
Preferred Dividend Requirement	(104)	(106)	(209)				(218)
NET INCOME (LOSS) AVAILABLE TO COMMON	\$ 19,392	\$ (951,896)	\$ 2,486				\$ (934,632)
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	57,474	58,639	58,034				58,619
BASIC EARNINGS PER SHARE (Note 7)							
Income (Loss) Before Cumulative Effect of Accounting Changes	\$ 0.34	\$ (16.23)	\$ 0.24				\$ (16.00)
Cumulative Effect of Accounting Changes			(0.20)				0.06
Net income (loss) available to common	0.34	(16.23)	0.04				(15.94)
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING (000s)	57,671	58,639	58,062				58,619
DILUTED EARNINGS PER SHARE (Note 7)							
Income (Loss) Before Cumulative Effect of Accounting Changes	\$ 0.34	\$ (16.23)	\$ 0.24				\$ (16.00)
Cumulative Effect of Accounting Changes			(0.20)				0.06
Net income (loss) available to common	0.34	(16.23)	0.04				(15.94)
DIVIDENDS PER SHARE	\$ 0.155	\$ 0.145	\$ 0.31				\$ 0.29

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF CASH FLOWSUnaudited

	Six Months Ended June 30,	
	2003 As Restated	2002 As Restated
(Dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before cumulative effect of accounting change	\$ 14,484	\$ (937,780)
Add (Deduct) adjustments to reconcile income (loss) to net cash provided by operating activities		
Depreciation, amortization and accretion	296,129	227,535
Deferred taxes	21,565	(633,027)
Investment income	(26,267)	(18,789)
Minority share of income	6,451	(5,087)
Loss on assets of operations held for sale	27,000	
(Gain) loss on marketable securities and other investments	8,500	1,756,526
Noncash interest expense	13,195	4,718
Other noncash expense	14,566	8,965
Changes in assets and liabilities		
Change in accounts receivable	81,118	(19,594)
Change in materials and supplies	(32,395)	26,939
Change in accounts payable	(82,135)	(27,242)
Change in advanced billings and customer deposits	13,137	10,420
Change in accrued taxes	(8,678)	32,420
Change in other assets and liabilities	(25,648)	(14,710)
	321,022	411,294
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(360,924)	(327,286)
Acquisitions, net of cash acquired	(1,244)	(73,722)
Increase in notes receivable	(7)	(2,431)
Refund of FCC deposit		47,565
Distributions from unconsolidated entities	17,884	6,217
Investments in and advances to unconsolidated entities	(1,465)	(1,695)
Other investing activities	(138)	(8,279)
	(345,894)	(359,631)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in notes payable	143,560	(248,400)
Issuance of long-term debt	450	179,850

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Repayments of long-term debt	(14,549)	(8,418)
Prepayment of long-term notes	(40,680)	(51,000)
Repurchase of TDS Common Shares	(56,522)	
Dividends paid	(18,184)	(17,227)
Other financing activities	1,503	(2,657)
	15,578	(147,852)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,294)	(96,189)
CASH AND CASH EQUIVALENTS -		
Beginning of period	1,298,936	140,744
End of period	\$ 1,289,642	\$ 44,555

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIESCONSOLIDATED BALANCE SHEETSASSETSUnaudited

	June 30, 2003	December 31, 2002
	As Restated	
	(Dollars in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,289,642	\$ 1,298,936
Accounts receivable		
Due from customers, less allowance of \$24,860 and \$24,627, respectively	247,736	272,997
Other, principally connecting companies, less allowance of \$11,781 and \$15,848, respectively	147,400	175,036
Federal income tax receivable		40,000
Materials and supplies, at average cost	103,998	72,441
Other current assets	115,984	88,602
	1,904,760	1,948,012
INVESTMENTS		
Marketable equity securities	2,300,233	1,944,939
Wireless license costs	979,759	1,038,556
Goodwill	1,005,029	1,106,451
Customer lists, net of accumulated amortization of \$15,543 and \$6,567, respectively	31,111	40,087
Investments in unconsolidated entities	215,121	205,995
Notes receivable, less valuation allowance of \$55,144 and \$55,144, respectively	6,476	7,287
Other investments	15,139	14,914
	4,552,868	4,358,229
PROPERTY, PLANT AND EQUIPMENT, NET		
U.S. Cellular	2,191,318	2,148,432
TDS Telecom	1,050,385	1,047,811
	3,241,703	3,196,243
OTHER ASSETS AND DEFERRED CHARGES		
Derivative asset		2,630
Other	96,458	96,914
	96,458	99,544

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ASSETS OF OPERATIONS HELD FOR SALE		223,876		
TOTAL ASSETS	\$	10,019,665	\$	9,602,028

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

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIESCONSOLIDATED BALANCE SHEETSLIABILITIES AND STOCKHOLDERS' EQUITYUnaudited

	June 30, 2003	December 31, 2002
	As Restated	
	(Dollars in thousands)	
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 84,861	\$ 64,482
Notes payable	605,352	461,792
Accounts payable	274,218	361,758
Advance billings and customer deposits	106,312	95,922
Accrued interest	33,110	31,751
Accrued taxes	41,552	34,413
Accrued compensation	49,750	58,678
Other current liabilities	50,339	58,370
	1,245,494	1,167,166
DEFERRED LIABILITIES AND CREDITS		
Net deferred income tax liability	1,227,862	1,170,505
Derivative liability	302,946	61,160
Asset retirement obligations	89,361	
Other	59,369	55,645
	1,679,538	1,287,310
LONG-TERM DEBT		
Long-term debt, excluding current portion	1,567,315	1,641,624
Prepaid forward contracts	1,664,595	1,656,616
	3,231,910	3,298,240
LIABILITIES OF OPERATIONS HELD FOR SALE	9,005	
MINORITY INTEREST IN SUBSIDIARIES	495,248	489,735
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES of Subsidiary Trust		
Holding Solely Company Subordinated Debentures (a)	300,000	300,000

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PREFERRED SHARES	6,704	6,954
COMMON STOCKHOLDERS EQUITY		
Common Shares, par value \$.01 per share; authorized 100,000,000 shares; issued and outstanding 56,103,000 and 55,875,000 shares, respectively	561	559
Series A Common Shares, par value \$.01 per share; authorized 25,000,000; issued and outstanding 6,430,000 and 6,602,000 shares, respectively	64	66
Capital in excess of par value	1,834,365	1,832,806
Treasury Shares, at cost, 5,168,000 and 3,799,000 shares, respectively	(460,298)	(404,169)
Accumulated other comprehensive income	260,906	191,704
Retained earnings	1,416,168	1,431,657
	3,051,766	3,052,623
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 10,019,665	\$ 9,602,028

(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.

TELEPHONE AND DATA SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

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

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

U.S. Cellular and TDS adopted Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations, in January 2003. In the fourth quarter of 2003, U.S. Cellular revised the probability that its lease cell sites would require remediation resulting in TDS restating its financial statements for the three and six months ended June 30, 2003. See Note 18 Restatement of Financial Statements and Note 6 - Cumulative Effect of Accounting Changes.

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

2. Summary of Significant Accounting Policies

Assets and Liabilities of Operations Held for Sale

On March 10, 2003, U.S. Cellular announced that it had entered into a definitive agreement with AT&T Wireless Services, Inc. (AT&T Wireless) to exchange wireless properties. When this transaction is fully consummated, U.S. Cellular will receive 10 and 20 megahertz personal

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communication service licenses in 13 states, approximately \$31 million in cash (excluding a working capital adjustment) and minority interests in six markets it currently controls. U.S. Cellular will transfer wireless assets and customers in 10 markets in Florida and Georgia to AT&T Wireless. The assignment and development of certain licenses will be deferred by U.S. Cellular for a period of up to five years from the closing date, in accordance with the exchange agreement. The acquisition of licenses in the exchange will be accounted for as a purchase by U.S. Cellular and the transfer of the properties by U.S. Cellular to AT&T Wireless will be accounted for as a sale. The closing of the transfer of the U.S. Cellular properties to AT&T Wireless and the assignments to U.S. Cellular from AT&T Wireless of a portion of the personal communication service licenses is expected to occur on August 1, 2003.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the balance sheet as of June 30, 2003 reflects the assets and liabilities of the wireless properties to be transferred to AT&T Wireless as assets and liabilities of operations held for sale. The assets and liabilities of operations held for sale have been presented separately in the asset and liability sections of the balance sheet. The revenues and expenses of these markets are included in operations. See Note 10 Assets and Liabilities of Operations Held for Sale for a summary of assets and liabilities of the markets to be disposed of.

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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003 As Restated	2002	2003 As Restated	2002
(Dollars in thousands, except per share amounts)				
Net Income (Loss) Available to Common				
As Reported	\$ 19,392	\$ (951,896)	\$ 2,486	\$ (934,632)
Pro Forma Expense	2,593	2,857	4,390	5,714
Pro Forma Net Income (Loss) Available to Common	\$ 16,799	\$ (954,753)	\$ (1,904)	\$ (940,346)
Basic Earnings Per Share				