CYCLE COUNTRY ACCESSORIES CORP
Form 10-Q/A
May 17, 2010
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QUARTERLY REPORT FOR CYCLE COUNTRY ACCESSORIES CORP.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark one)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from to

Commission file number: 001-31715

Cycle Country Accessories Corp.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

42-1523809

(IRS Employer Identification No.)

1701 38th Ave W, Spencer, Iowa 51301

(Address of principal executive offices)

P: (712) 262-4191

F: (712) 262-0248

www.cyclecountry.com

(Registrant s telephone number, facsimile number, and Corporate Website)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 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 o No x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer and accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of the registrant s common stock, par value $0.0001 per share, outstanding as of June 30, 2009 was 6,072,307.

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Explanatory Note

This amendment to our quarterly report on Form 10-Q/A (this Amendment) is being filed to amend our quarterly report on Form 10-Q for the quarter ended June 30, 2009, which was originally filed on August 19, 2009 (the Original Filing). The consolidated financial statements for the three and nine months ended June 30, 2009 and related disclosures in this Amendment have been restated in accordance with the changes described below. The principal reason for the restatement is the correction and reclassification of information due to the previously discovered and disclosed misappropriation by the former Chairman of the Board. In the process of completing the restatement, the Company has made some additional changes to correct certain small mathematical errors. All of the changes to the financial statements as a result of this restatement are more fully reflected in the tables included at Note 2 to our condensed consolidated financial statements included in Part 1, Item 1 Unaudited Financial Statements of this Form 10 Q/A.

The Company originally reported the acquisition by the Company of 747,250 shares of its own stock at an average cost of $.72 per share price for a total cost of $570,000 in cash (the Stock Buyback) during the fiscal quarter ending December 31, 2008 of fiscal 2009. In the process of completing the audit of its financial statements for the fiscal year ended September 30, 2009, the Company was unable to obtain satisfactory documentation confirming the Stock Buyback.

Mr. L.G. Hancher, Jr., the then-Chairman of the Company s Board of Directors and the Audit Committee, had recommended the Stock Buyback and had undertaken to complete it on the Company s behalf. Mr. Hancher had previously reported to the Company and its auditors that he had completed the Stock Buyback on the terms disclosed in the Company s filings.

In the process of investigating matters relating to the Stock Buyback, a number of irregularities surrounding the purported transactions surfaced. In response to ongoing inquiries from management for appropriate documentation on the use of $570,000 in cash provided by the Company to complete the Stock Buyback, on January 6, 2010, the Company received a letter from Mr. Hancher that stated $400,000 of the funds advanced to him by the Company were not used to purchase shares of Company stock. The Company continues to work to recover all of the amounts misappropriated, but any such recoveries will impact subsequent periods and will be reported for in the periods in which such recoveries occur.

The funds reported as used for the Stock Buyback have been re-characterized as fraud expense in this Amendment. Also as a result of the misappropriation, the number of outstanding shares was incorrectly reported in each of the Company s quarterly reports on Form 10-Q for fiscal 2009, including the Original Filing and have been corrected in this Amendment.

In addition, during the fiscal quarter ended March 31, 2009, as part of this purported Stock Buyback transaction, Mr. Hancher directed the Company to pay $50,000 to a consulting brokerage firm. These funds were originally recorded as a prepaid expense, and were to be used to pay future legal and other advisory costs. As a result of the Company s investigation of this entire matter, management has determined that the $50,000 in prepaid expenses also should be re-characterized as fraud expense.

In this Amendment, the Company also has reclassified some stock-based compensation to its outside directors. Mr. Hancher was responsible for issuing stock-based compensation to the other directors in accordance with the Company s approved plan. However, as part of the investigation, it was discovered that some of the shares that Mr. Hancher was to issue were not in fact issued. Consequently, we corrected the stock-based compensation by correcting the additional paid-in capital and accrued expense accounts, each by the amount of $6,000, to correct the previous misstatement.

With this Form 10-Q/A, we are amending the following items in the Original Filing:

- Part I, Item 1 Financial Statements (Unaudited);
- Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations;
- Part II, Item 6 Exhibits.

All of the adjustments made as a result of the restatement are more fully described in Note 2 to our condensed consolidated financial statements included in Part 1, Item 1 Unaudited Financial Statements of this Form 10 Q/A.

No attempt has been made in this Amendment to modify or update any other disclosures in the Original Filing. Except for the amended and restated information as discussed above, this Amendment continues to describe conditions as of the date of the Original Filing, and the disclosures contained herein have not been updated to reflect events, results or developments that have occurred after the Original Filing, or to modify or update those disclosures affected by subsequent events unless otherwise indicated in this Amendment. Among other things, forward-looking statements made in the Original Filing have not been revised to reflect events, results or developments that have occurred or facts that have become known to us after the date of the Original Filing, and such forward-looking statements should be read in their historical context. This Amendment should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the Original Filing, including any amendments to those filings.

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Cycle Country Accessories Corp.

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Part I Financial Information

Item 1. Financial Statements

Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Balance Sheet

		June 30, 2009 (Unaudited)		September 30, 2008 (Audited)
Assets				
Current Assets:				
Cash and cash equivalents	$	147,472	$	194,576
Accounts receivable, net		453,684		2,935,647
Inventories		4,177,851		5,110,499
Income taxes receivable		675,417		14,780
Deferred income taxes		769,000		345,920
Prepaid expenses and other		88,827		209,617
Total current assets		6,312,251		8,811,039
Property, plant, and equipment, net		10,968,976		11,449,369
Intangible assets, net		183,015		177,812
Goodwill		0		4,890,146
Other assets		42,382		48,363
Total assets	$	17,506,624	$	25,376,729
Liabilities and Stockholders Equity				
Current Liabilities:				
Accounts payable	$	150,287	$	577,278
Accrued interest payable		6,401		3,871
Accrued expenses		572,852		721,211
Bank line of credit		820,000		1,000,000
Current portion of bank notes payable		844,701		811,053
Current portion of deferred gain		166,524		166,524
Total current liabilities		2,560,765		3,279,937
Long-Term Liabilities:				
Bank notes payable, less current portion		3,336,050		3,971,525
Deferred gain, less current portion		69,385		194,278
Deferred income taxes		2,174,000		2,360,812
Total long term liabilities		5,579,435		6,526,615
Total liabilities		8,140,200		9,806,552
Stockholders Equity:				
Common stock, $.0001 par value; 100,000,000 shares authorized; 6,072,307 shares issued and outstanding net of treasury stock		748		743
Additional paid-in capital		14,842,457		14,729,338
Retained Earnings		(2,895,145)		3,421,732

Treasury stock, at cost, 1,410,730 shares		(2,581,636)		(2,581,636)
Total stockholders equity		9,366,424		15,570,177
Total liabilities and stockholders equity	$	17,506,624	$	25,376,729

See accompanying notes to the condensed consolidated financial statements.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

	Three Months Ended June 30, 2009 (Unaudited)	2008 (Unaudited)
Revenues:		
Net sales	$ 1,199,459	$ 3,454,529
Freight income	21,234	14,729
Total revenues	1,220,693	3,469,258
Cost of goods sold	(1,268,844)	(2,852,489)
Inventory adjustment	(610,105)	
Gross profit	(658,257)	616,769
Selling, general, and administrative expenses	(943,161)	(1,156,992)
Goodwill impairment	(4,890,146)	
Fraud expense		
Income from operations	(6,491,564)	(540,223)
Other Income (Expense):		
Interest expense	(76,743)	(90,397)
Interest income	161	1,930
Gain on sale of assets	41,631	41,355
Miscellaneous	2,519	(540)
Total other income (expense)	(32,432)	(47,652)
Income (loss) before provision for (benefit from) income	(6,523,996)	(587,875)
Provision for (benefit from) income taxes	(983,572)	(217,514)
Net income (loss)	$ (5,540,424)	$ (370,361)
Weighted average shares of common stock outstanding:		
Basic	6,072,307	6,006,415
Diluted	6,072,307	6,006,415
Earnings per common share:		
Basic	$ (.91)	$ (0.06)
Diluted	$ (.91)	$ (0.06)

See accompanying notes to the condensed consolidated financial statements.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

	Nine Months Ended June 30, 2009 (Unaudited)	2008 (Unaudited)
Revenues:		
Net sales	$ 7,091,748	$ 12,324,462
Freight income	73,812	58,038
Total revenues	7,165,560	12,382,500
Cost of goods sold	(5,878,775)	(8,213,684)
Inventory adjustment	(610,105)	
Gross profit	676,680	4,168,816
Selling, general, and administrative expenses	(2,764,081)	(3,344,376)
Goodwill impairment	(4,890,146)	
Fraud Expense	(620,000)	
Income from operations	(7,597,547)	824,440
Other Income (Expense):		
Interest expense	(263,937)	(259,792)
Interest income	1,674	19,248
Gain on sale of assets	121,345	321,402
Miscellaneous	5,586	35,441
Total other income (expense)	(135,332)	116,299
Income (loss) before provision for (benefit from) income taxes	(7,732,879)	940,739
Provision for (benefit from) income taxes	(1,416,000)	344,643
Net income (loss)	$ (6,316,879)	$ 596,096
Weighted average shares of common stock outstanding:		
Basic	6,055,640	6,223,886
Diluted	6,055,640	6,223,886
Earnings per common share:		
Basic	$ (1.04)	$ 0.10
Diluted	$ (1.04)	$ 0.10

See accompanying notes to the condensed consolidated financial statements.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended June 30, 2009 (Unaudited)	2008 (Unaudited)
Cash Flows from Operating Activities:		
Net income (loss)	$ (6,316,879)	$ 596,096
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	624,699	600,355
Amortization	4,426	4,381
Inventory reserve	474,870	27,000
Share-based expense	125,125	51,625
Provision for doubtful accounts		
Gain on sale of equipment	(121,345)	(321,402)
Goodwill impairment	4,890,146	
Change in:		
Accounts receivable, net	2,481,964	454,109
Inventories	457,777	(1,378,454)
Taxes receivable	(660,637)	82,921
Prepaid expenses and other	126,771	(10,952)
Accounts payable	(424,926)	236,200
Deferred income taxes	(609,892)	
Accrued expenses	(160,358)	105,314
Income taxes payable		
Accrued interest payable	2,531	(558)
Net cash provided by operating activities	894,272	446,635
Cash Flows from Investing Activities:		
Purchase of equipment	(157,436)	(1,172,868)
Purchase of intangible assets	(9,630)	
Proceeds from sale of equipment	7,517	
Net cash used in investing activities	(159,549)	(1,172,868)
Cash Flows from Financing Activities:		
Proceeds from bank notes payable		750,000
Payments on bank notes payable	(601,827)	(485,097)
Payments on bank loan costs		(15,000)
Bank Line of Credit, net	(180,000)	200,000
Purchase of Treasury Stock		9,390
Net cash used in financing activities	(781,827)	459,293
Net change in cash and cash equivalents	(47,104)	(266,940)
Cash and cash equivalents, beginning of period	194,576	454,848
Cash and cash equivalents, end of period	$ 147,472	$ 187,908

See accompanying notes to the condensed consolidated financial statements.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended June 30, 2009 (Unaudited)		Nine Months Ended June 30, 2008 (Unaudited)	
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	261,407	$	260,350
Income taxes	$		$	261,722
Supplemental schedule of non-cash investing and financing				
Acquisition of common stock from sale of property, plant, and equipment	$		$	2,581,636
Issuance of common stock for payment of CEO bonus	$		$	25,000
Issuance of stock and Options for payment of CEO	$		$	
Issuance of common stock for payment of consultant fees	$	22,500	$	91,500
Issuance of common stock for payment of director fees	$		$	11,000

See accompanying notes to the condensed consolidated financial statements.

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1. Basis of Presentation:

The accompanying unaudited condensed consolidated financial statements for the three months and nine months ended June 30, 2009 and 2008 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Except as otherwise noted in Item 4T., Controls and Procedures, (see below), it is the opinion of management that the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of the Company s financial position, results of operations, and cash flows for the periods presented.

The results of operations for the interim periods ended June 30, 2009 and 2008 are not necessarily indicative of the results to be expected for the full year. These interim consolidated financial statements should be read in conjunction with the September 30, 2008 consolidated financial statements and related notes included in the Company s Annual Report on Forms 10-KSB and 10-K/A for the year ended September 30, 2008.

2. Restatement

In January 2010, the Company determined it would need to restate its condensed consolidated financial statements for the three months and nine months ended June 30, 2009. The Company originally reported the acquisition by the Company of 747,250 shares of its own stock at an average cost of $.72 per share price for a total cost of $570,000 in cash during the first fiscal quarter ending December 31, 2008 (the Stock Buyback) of fiscal 2009. In the process of completing the audit of its financial statements for the fiscal year ended September 30, 2009, the Company was unable to obtain satisfactory documentation confirming the Stock Buyback.

Mr. L.G. Hancher, Jr., the then-Chairman of the Company s Board of Directors and the Audit Committee, had recommended the Stock Buyback and had undertaken to complete it on the Company s behalf. Mr. Hancher had previously reported to the Company and its auditors that he had completed the Stock Buyback on the terms disclosed in the Company s filings.

In the process of investigating matters relating to the Stock Buyback, a number of irregularities surrounding the purported transactions surfaced. In response to ongoing inquiries from management for appropriate documentation on the use of $570,000 in cash provided by the Company to complete the Stock Buyback, on January 6, 2010, the Company received a letter from Mr. Hancher that stated $400,000 of the funds advanced to him by the Company were not used to purchase shares of Company stock. The Company continues to work to recover all of the amounts misappropriated, but any such recoveries will impact subsequent periods and will be reported for in the periods in which such recoveries occur.

The funds reported as used for the Stock Buyback have been re-characterized as fraud expense in this Amendment. Also as a result of the misappropriation, the number of outstanding shares was incorrectly reported in each of the Company s quarterly reports on Form 10-Q for fiscal 2009, including the Original Filing and have been corrected in this Amendment.

In addition, during the fiscal quarter ended March 31, 2009, as part of this purported Stock Buyback transaction, Mr. Hancher directed the Company to pay $50,000 to a consulting brokerage firm. These funds were originally recorded as a prepaid expense, and were to be used to pay future legal and other advisory costs. As a result of the Company s investigation of this entire matter, management has determined that the $50,000 in prepaid expenses also should be re-characterized as fraud expense.

In this Amendment, the Company also has reclassified some stock-based compensation to its outside directors. Mr. Hancher was responsible for issuing stock-based compensation to the other directors in accordance with the Company s approved plan. However, as part of the investigation, it was discovered that some of the shares that Mr. Hancher was to issue were not in fact issued. Consequently, we corrected the stock-based compensation by correcting the additional paid-in capital and accrued expense accounts, each by the amount of $6,000, to correct the previous misstatement.

The following tables show the specific effects of the restatement on the consolidated financial statements as of and for the three and nine month periods ended June 30, 2009:

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Balance Sheet

June 30, 2009

	June 30, 2009 (Unaudited) ORIGINAL	ADJUSTMENTS	June 30, 2009 (Unaudited) RESTATED
Assets			
Current Assets:			
Cash and cash equivalents	$ 147,472	$	$ 147,472
Accounts receivable, net	453,684		453,684
Inventories	4,177,851		4,177,851
Income taxes receivable	675,417		675,417
Deferred income taxes	558,000	211,000	769,000
Prepaid expenses and other	138,827	(50,000)	88,827
Total current assets	6,151,251	161,000	6,312,251
Property, plant, and equipment, net	10,968,976		10,968,976
Intangible assets, net	183,015		183,015
Goodwill			
Other assets	42,382		42,382
Total assets	$ 17,345,624	$ 161,000	$ 17,506,624
Liabilities and Stockholders Equity			
Current Liabilities:			
Accounts payable	$ 150,287	$	$ 150,287
Accrued interest payable	6,401		6,401
Accrued expenses	566,852	6,000	572,852
Bank line of credit	820,000		820,000
Current portion of bank notes payable	844,701		844,701
Current portion of deferred gain	166,524		166,524
Total current liabilities	2,554,765	6,000	2,560,765
Long-Term Liabilities:			
Bank notes payable, less current portion	3,336,050		3,336,050
Deferred gain, less current portion	69,385		69,385
Deferred income taxes	2,174,000		2,174,000
Total long term liabilities	5,579,435		5,579,435
Total liabilities	8,134,200	6,000	8,140,200
Stockholders Equity:			
Common stock, $.0001 par value; 100,000,000 shares authorized; 6,072,307 shares issued and outstanding, net of treasury stock	748		748
Additional paid-in capital	14,848,457	(6,000)	14,842,457
Retained Earnings	(2,486,145)	(409,000)	(2,895,145)
Treasury stock, at cost, 1,410,730 shares	(3,151,636)	570,000	(2,581,636)
Total stockholders equity	9,211,424	155,000	9,366,424
Total liabilities and stockholders equity	$ 17,345,624	$ 161,000	$ 17,506,624

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

	Three Months Ended June 30,		
	2009 (Unaudited) ORIGINAL	ADJUSTMENTS	2009 (Unaudited) RESTATED
Revenues:			
Net sales	$ 1,199,459	$	$ 1,199,459
Freight income	21,234		21,234
Total revenues	1,220,693		1,220,693
Cost of goods sold	(1,268,844)		(1,268,844)
Inventory adjustment	(610,105)		(610,105)
Gross profit	(658,257)		(658,257)
Selling, general, and administrative expenses	(943,161)		(943,161)
Goodwill impairment	(4,890,146)		(4,890,146)
Fraud expense			
Income from operations	(6,491,564)		(6,491,564)
Other Income (Expense):			
Interest expense	(76,743)		(76,743)
Interest income	161		161
Gain on sale of assets	41,631		41,631
Miscellaneous	2,519		2,519
Total other income (expense)	(32,432)		(32,432)
Income (loss) before provision for (benefit from) income taxes	(6,523,996)		(6,523,996)
Provision for (benefit from) income taxes	(983,572)		(983,572)
Net income (loss)	$ (5,540,424)	$	$ (5,540,424)
Weighted average shares of common stock outstanding:			
Basic	5,328,666	743,641	6,072,307
Diluted	5,328,666	743,641	6,072,307
Earnings per common share:			
Basic	$ (1.04)	$ 0.13	$ (0.91)
Diluted	$ (1.04)	$ 0.13	$ (0.91)

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

	Nine Months Ended June 30,		
	2009 (Unaudited) ORIGINAL	ADJUSTMENTS	2009 (Unaudited) RESTATED
Revenues:			
Net sales	$ 7,091,748	$	$ 7,091,748
Freight income	73,812		73,812
Total revenues	7,165,560		7,165,560
Cost of goods sold	(5,878,775)		(5,878,775)
Inventory adjustment	(610,105)		(610,105)
Gross profit	676,680		676,680
Selling, general, and administrative expenses	(2,764,081)		(2,764,081)
Goodwill impairment	(4,890,146)		(4,890,146)
Fraud expense		(620,000)	(620,000)
Income from operations	(6,977,547)	(620,000)	(7,597,547)
Other Income (Expense):			
Interest expense	(263,937)		(263,937)
Interest income	1,674		1,674
Gain on sale of assets	121,345		121,345
Miscellaneous	5,586		5,586
Total other income (expense)	(135,332)		(135,332)
Income before provision for (benefit from) income taxes	(7,112,879)	(620,000)	(7,732,879)
Provision for (benefit from) income taxes	(1,205,000)	(211,000)	(1,416,000)
Net income (loss)	$ (5,907,879)	$ (409,000)	$ (6,316,879)
Weighted average shares of common stock outstanding:			
Basic	5,477,817	577,823	6,055,640
Diluted	5,477,817	577,823	6,055,640
Earnings per common share:			
Basic	$ (1.08)	$ 0.04	$ (1.04)
Diluted	$ (1.08)	$ 0.04	$ (1.04)

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended June 30,		
	2009 (Unaudited) ORIGINAL	ADJUSTMENTS	2009 (Unaudited) RESTATED
Cash Flows from Operating Activities:			
Net income	$ (5,907,879)	$ (409,000)	$ (6,316,879)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	624,699		624,699
Amortization	4,426		4,426
Inventory reserve	474,870		474,870
Share-based Expense	119,125	6,000	125,125
Gain on sale of equipment	(121,345)		(121,345)
Goodwill impairment	4,890,146		4,890,146
Change in:			
Accounts receivable, net	2,481,964		2,481,964
Inventories	457,777		457,777
Taxes receivable	(660,637)		(660,637)
Prepaid expenses and other	76,771	50,000	126,771
Accounts payable	(424,926)		(424,926)
Deferred income taxes	(398,892)	(211,000)	(609,892)
Accrued expenses	(154,358)	(6,000)	(160,358)
Accrued interest payable	2,531		2,531
Net cash provided by operating activities	1,464,272	(570,000)	894,272
Cash Flows from Investing Activities:			
Purchase of equipment	(157,436)		(157,436)
Purchase of intangible assets	(9,630)		(9,630)
Proceeds from sale of equipment	7,517		7,517
Net cash used in investing activities	(159,549)		(159,549)
Cash Flows from Financing Activities:			
Proceeds from bank notes payable			
Payments on bank notes payable	(601,827)		(601,827)
Payments on bank loan costs			
Bank Line of Credit, net	(180,000)		(180,000)
Purchase of treasury stock	(570,000)	570,000	
Net cash used in financing activities	(1,351,827)	570,000	(781,827)
Net change in cash and cash equivalents	(47,104)		(47,104)
Cash and cash equivalents, beginning of period	194,576		194,576
Cash and cash equivalents, end of period	$ 147,472	$	$ 147,472

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended June 30,		
	2009 (Unaudited) ORIGINAL	ADJUSTMENTS	2009 (Unaudited) RESTATED
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 261,407		$ 261,407
Income taxes	$		$
Supplemental schedule of non-cash investing and financing			
Acquisition of common stock from sale of property, plant, and equipment	$		$
Issuance of common stock for payment of CEO bonus	$		$
Issuance of stock and Options for payment of CEO	$	$	$
Issuance of common stock for payment of consultant fees	$ 22,500		$ 22,500
Issuance of common stock for payment of director fees	$ 6,000	$ (6,000)	$

3. Inventories:

The major components of inventories, as of June 30, 2009 and September 30, 2008 are as follows:

	2009	2008
Raw materials	$ 1,381,603	$ 2,474,459
Work in progress	76,532	533,344
Finished goods	3,492,055	2,237,930
Inventory reserve	(772,339)	(135,234)
Total inventories	$ 4,177,851	$ 5,110,499

During the third quarter of 2009, while undergoing lean manufacturing process improvements and upgrades to the ERP software used to manage the Company, management spent significant time evaluating the inventory processes, inventory quantities on hand, future product demand and the estimated utility of our inventory. During this review, management made the determination that some of our inventory on-hand was obsolete or needed to be written down to the current market values. Accordingly, the Company increased the reserve by approximately $600,000 to approximately $772,000 during third quarter, until management could complete the review.

4. Earnings (Loss) Per Share:

Basic earnings (loss) per share (EPS) is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed in a manner consistent with that of basic EPS while giving effect to the potential dilution that could occur if stock options or other share-based awards were exercised. As of June 30, 2009, the Company has approximately 50,000 common stock-equivalents related to outstanding share-based awards. At June 30, 2009, the effects of the common stock equivalents are excluded from the computation of diluted earnings per share, as their effects would be anti-dilutive.

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The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three months and nine months ended June 30, 2009:

	For the three months ended June 30, 2009 Income(Loss) (numerator)	Shares (denominator)	Per-share amount
Basic EPS			
Income (loss) available to common stockholders	$ (5,540,424)	6,072,307	$ (.91)
Diluted EPS			
Income (loss) available to common stockholders	$ (5,540,424)	6,072,307	$ (.91)

	For the nine months ended June 30, 2009 Income(Loss) (numerator)	Shares (denominator)	Per-share amount
Basic EPS			
Income (loss) available to common stockholders	$ (6,316,879)	6,055,640	$ 1.04
Diluted EPS			
Income (loss) available to common stockholders	$ (6,316,879)	6,055,640	$ 1.04

5. Segment Information:

Segment information has been presented on a basis consistent with how business activities are reported internally to management. Management solely evaluates the operating profit of each segment by using the direct costs of manufacturing its products without an allocation of indirect costs. In determining the total revenues by segment, freight income and sales discounts are not allocated to each of the segments for internal reporting purposes.

The Company has four operating segments that assemble, manufacture, or sell a variety of products.

Effective April 1, 2009, the Company changed its financial segment reporting to reflect management and organizational changes made by the Company. Periods prior to April 1, 2009 have been restated to reflect the basis of segmentation presented below. Effective April 1, 2009, each operating segment is separately managed and has separate financial information evaluated regularly by the Company s Chief Executive Officer and Interim Chief Financial Officer in determining resource allocation and assessing performance.

The Company s financial reporting segments consolidated two previously reported segments into one, while also segregating a small product line into a new segment for better clarification and reporting.

Cycle Country ATV Accessories was created by consolidating the former ATV Accessories and Weekend Warrior segments, while at the same time removing our oil filter product line from the ATV accessories segment and creating the Perf-Form segment.

Our Plastic Wheel Cover segment was renamed Plazco, with no change to the data in that segment.

We have similarly renamed our Contract Manufacturing segment which is now called Imdyne, again with no change to the data in that segment.

The significant accounting policies of the operating segments are the same as those described in Note 1 to the Consolidated Financial Statements of the Company s Annual Report on Form 10-KSB for the year ended September 30, 2008.

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The following is a summary of certain financial information related to the four segments during the three months and nine months ended June 30, 2009 and 2008:

CYCLE COUNTRY ATV ACCESSORIES - Three Months Ended June 30, 2009 and 2008. (Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Increase (Decrease) $	Increase (Decrease) %
Revenue	$ 607,165	$ 2,591,518	$ (1,984,353)	(76.57)%
Cost of goods sold	$ 437,743	$ 1,535,188	$ (1,097,445)	(71.48)%
Gross profit	$ 169,421	$ 1,056,330	$ (886,909)	(83.96)%
Gross profit %	27.9%	40.7%		

PLAZCO - Three Months Ended June 30, 2009 and 2008 (Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Increase (Decrease) $	Increase (Decrease) %
Revenue	$ 256,309	$ 488,960	$ (232,651)	2

Dividends paid to TDS shareholders	(19)	(18)
Distributions to noncontrolling interests	(1)	—
Other financing activities	—	(5)
Net cash used in financing activities	(29)	(17)
Net increase in cash, cash equivalents and restricted cash	39	161
Cash, cash		

equivalents and restricted cash		
Beginning of period	927	622
End of period	$ 966	$ 783

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

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Telephone and Data Systems, Inc.
Consolidated Balance Sheet — Assets
(Unaudited)

	March 31, 2019	December 31, 2018
(Dollars in millions)		
Current assets		
Cash and cash equivalents	$959	$ 921
Short-term investments	17	17
Accounts receivable		
Customers and agents, less allowances of $70 and $71, respectively	968	992
Other, less allowances of $2 and $2, respectively	99	107
Inventory, net	165	150
Prepaid expenses	91	103
Income taxes receivable	8	12
Other current assets	28	28
Total current assets	2,335	2,330
Assets held for sale	—	54
Licenses	2,222	2,195
Goodwill	509	509
Other intangible assets, net of accumulated amortization of $174 and $168, respectively	247	253
Investments in unconsolidated entities	507	480
Property, plant and equipment		
In service and under construction	12,189	12,074
Less: Accumulated depreciation and amortization	8,907	8,728
Property, plant and equipment, net	3,282	3,346
Operating lease right-of-use assets	965	—
Other assets and deferred charges	720	616
Total assets[1]	$10,787	$ 9,783

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

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Telephone and Data Systems, Inc.
Consolidated Balance Sheet — Liabilities and Equity
(Unaudited)

	March 31, 2019	December 31, 2018
(Dollars and shares in millions, except per share amounts)		
Current liabilities		
Current portion of long-term debt	$21	$ 21
Accounts payable	400	365
Customer deposits and deferred revenues	203	197
Accrued interest	22	11
Accrued taxes	44	44
Accrued compensation	73	127
Short-term operating lease liabilities	110	—
Other current liabilities	92	114
Total current liabilities	965	879
Liabilities held for sale	—	1
Deferred liabilities and credits		
Deferred income tax liability, net	665	640
Long-term operating lease liabilities	929	—
Other deferred liabilities and credits	446	541
Long-term debt, net	2,414	2,418
Commitments and contingencies		
Noncontrolling interests with redemption features	11	11
Equity		
TDS shareholders’ equity		
Series A Common and Common Shares		
Authorized 290 shares (25 Series A Common and 265 Common Shares)		
Issued 133 shares (7 Series A Common and 126 Common Shares)		
Outstanding 114 shares (7 Series A Common and 107 Common Shares)		
Par Value ($.01 per share)	1	1
Capital in excess of par value	2,442	2,432
Treasury shares, at cost, 19 Common Shares	(505)	(519)
Accumulated other comprehensive loss	(10)	(10)
Retained earnings	2,683	2,656
Total TDS shareholders' equity	4,611	4,560
Noncontrolling interests	746	733
Total equity	5,357	5,293
Total liabilities and equity[1]	$10,787	$ 9,783

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

[1] The consolidated total assets as of March 31, 2019 and December 31, 2018, include assets held by consolidated variable interest entities (VIEs) of $895 million and $848 million, respectively, which are not available to be used to settle the obligations of TDS. The consolidated total liabilities as of March 31, 2019 and December 31, 2018, include certain liabilities of consolidated VIEs of $19 million and $21 million, respectively, for which the creditors of the VIEs have no recourse to the general credit of TDS. See Note 9 — Variable Interest Entities for additional information.

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Telephone and Data Systems, Inc.
Consolidated Statement of Changes in Equity
(Unaudited)

	TDS Shareholders							
	Series A Common and Common shares	Capital in excess of par value	Treasury shares	Accumulated other comprehensive income (loss)	Retained earnings	Total TDS shareholders' equity	Noncontrolling interests	Total equity
(Dollars in millions)								
December 31, 2018	$1	$2,432	$(519)	$(10)	$2,656	$4,560	$733	$5,293
Net income attributable to TDS shareholders	—	—	—	—	59	59	—	59
Net income attributable to noncontrolling interests classified as equity	—	—	—	—	—	—	11	11
TDS Common and Series A Common share dividends ($0.165 per share)	—	—	—	—	(19)	(19)	—	(19)
Dividend reinvestment plan	—	—	5	—	(1)	4	—	4
Incentive and compensation plans	—	—	9	—	(12)	(3)	—	(3)
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	—	6	—	—	—	6	3	9
Stock-based compensation awards	—	4	—	—	—	4	—	4
Distributions to noncontrolling interests	—	—	—	—	—	—	(1)	(1)
March 31, 2019	$1	$2,442	$(505)	$(10)	$2,683	$4,611	$746	$5,357

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

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Telephone and Data Systems, Inc.
Consolidated Statement of Changes in Equity
(Unaudited)

	TDS Shareholders							
	Series A Common and Common shares	Capital in excess of par value	Treasury shares	Accumulated other comprehensive income (loss)	Retained earnings	Total TDS shareholders' equity	Noncontrolling interests	Total equity
(Dollars in millions)								
December 31, 2017	$1	$2,413	$(669)	$(1)	$2,525	$4,269	$623	$4,892
Cumulative effect of accounting changes	—	—	—	(1)	165	164	31	195
Net income attributable to TDS shareholders	—	—	—	—	39	39	—	39
Net income attributable to noncontrolling interests classified as equity	—	—	—	—	—	—	8	8
Other comprehensive loss	—	—	—	(1)	—	(1)	—	(1)
TDS Common and Series A Common share dividends ($0.160 per share)	—	—	—	—	(18)	(18)	—	(18)
Dividend reinvestment plan	—	—	6	—	(4)	2	—	2
Incentive and compensation plans	—	—	20	—	(11)	9	—	9
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	—	5	—	—	—	5	5	10
Stock-based compensation awards	—	3	—	—	—	3	—	3
March 31, 2018	$1	$2,421	$(643)	$(3)	$2,696	$4,472	$667	$5,139

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

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Telephone and Data Systems, Inc.
Notes to Consolidated Financial Statements

Note 1 Basis of Presentation

The accounting policies of Telephone and Data Systems, Inc. (TDS) conform to accounting principles generally accepted in the United States of America (GAAP) as set forth in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Unless otherwise specified, references to accounting provisions and GAAP in these notes refer to the requirements of the FASB ASC. The consolidated financial statements include the accounts of TDS and subsidiaries in which it has a controlling financial interest, including TDS' 82%-owned subsidiary, United States Cellular Corporation (U.S. Cellular) and TDS' wholly-owned subsidiary, TDS Telecommunications LLC (TDS Telecom). In addition, the consolidated financial statements include certain entities in which TDS has a variable interest that require consolidation under GAAP. All material intercompany accounts and transactions have been eliminated.

TDS' business segments reflected in this Quarterly Report on Form 10-Q for the period ended March 31, 2019, are U.S. Cellular, Wireline, and Cable. TDS' non-reportable other business activities are presented as "Corporate, Eliminations and Other", which includes the operations of TDS' wholly-owned hosted and managed services (HMS) subsidiary, which operates under the OneNeck IT Solutions brand, and its wholly-owned subsidiary Suttle-Straus, Inc. (Suttle-Straus). HMS' and Suttle-Straus' financial results were not significant to TDS' operations. All of TDS' segments operate only in the United States, except for HMS, which includes an insignificant foreign operation. See Note 11 — Business Segment Information for summary financial information on each business segment.

The unaudited consolidated financial statements included herein have been prepared by TDS pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, TDS believes that the disclosures included herein are adequate to make the information presented not misleading. Certain numbers included herein are rounded to millions for ease of presentation; however, certain calculated amounts and percentages are determined using the unrounded numbers. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in TDS' Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2018.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring items, unless otherwise disclosed) necessary for the fair statement of TDS' financial position as of March 31, 2019 and December 31, 2018 and its results of operations, comprehensive income, cash flows and changes in equity for the three months ended March 31, 2019 and 2018. These results are not necessarily indicative of the results to be expected for the full year. TDS has not changed its significant accounting and reporting policies from those disclosed in its Form 10-K for the year ended December 31, 2018, except as disclosed in Note 8 — Leases.

Restricted Cash

TDS presents restricted cash with cash and cash equivalents in the Consolidated Statement of Cash Flows. The following table provides a reconciliation of Cash and cash equivalents and restricted cash reported in the Consolidated Balance Sheet to the total of the amounts in the Consolidated Statement of Cash Flows as of March 31, 2019 and December 31, 2018.

	March 31, 2019	December 31, 2018
(Dollars in millions)		
Cash and cash equivalents	$ 959	$ 921
Restricted cash included in Other current assets	7	6
Cash, cash equivalents and restricted cash in the statement of cash flows	$ 966	$ 927

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13). ASU 2016-13 requires entities to use a new forward-looking, expected loss model to estimate credit losses. It also requires additional disclosure relating to the credit quality of trade and other receivables, including information relating to management’s estimate of credit allowances. TDS is required to adopt ASU 2016-13 on January 1, 2020, using the modified retrospective approach. Early adoption is permitted; however, TDS does not intend to adopt early. TDS is evaluating the effects that adoption of ASU 2016-13 will have on its financial position, results of operations and disclosures.

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Note 2 Revenue Recognition
Disaggregation of Revenue
In the following table, revenue is disaggregated by type of service and timing of revenue recognition. Service revenues are recognized over time and Equipment sales are point in time.

Three Months Ended March 31, 2019	U.S. Cellular	TDS Telecom Wireline	Cable	TDS Telecom Total[1]	Corporate, Eliminations and Other	Total
(Dollars in millions)						
Revenues from contracts with customers:						
Type of service:						
Retail service	$ 659	$—	$ —	$ —	$ —	$659
Inbound roaming	34	—	—	—	—	34
Residential	—	81	49	131	—	131
Commercial	—	43	10	54	—	54
Wholesale	—	45	—	45	—	45
Other service	32	—	—	—	18	50
Service revenues from contracts with customers	725	170	60	229	18	973
Equipment and product sales	225	—	—	—	37	262
Total revenues from contracts with customers[2]	$ 950	$170	$ 60	$ 230	$ 55	$1,235

Numbers may not foot due to rounding.

Three Months Ended March 31, 2018	U.S. Cellular	TDS Telecom Wireline	Cable	TDS Telecom Total[1]	Corporate, Eliminations and Other	Total
(Dollars in millions)						
Revenues from contracts with customers:						
Type of service:						
Retail service	$ 649	$—	$ —	$ —	$ —	$649
Inbound roaming	27	—	—	—	—	27
Residential	—	80	46	126	—	126
Commercial	—	48	10	57	—	57
Wholesale	—	47	—	47	—	47
Other service	32	—	—	—	18	50
Service revenues from contracts with customers	708	175	55	230	18	956
Equipment and product sales	218	—	—	—	29	247
Total revenues from contracts with customers[2]	$ 926	$175	$ 55	$ 230	$ 47	$1,203

Numbers may not foot due to rounding.

[1] TDS Telecom Total includes eliminations between the Wireline and Cable segments.

[2] Revenue line items in this table will not agree to amounts presented in the Consolidated Statement of Operations as the balances do not include all sources of revenues.

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Contract Balances

The accounts receivable balance related to amounts billed and not paid on contracts with customers, net of allowances, is shown in the table below.

(Dollars in millions)	March 31, 2019	December 31, 2018
Accounts receivable		
Customer and agents	$ 963	$ 987
Other	71	73
Total[1]	$ 1,034	$ 1,060

1 Accounts receivable line items presented in this table will not agree to amounts presented in the Consolidated Balance Sheet as certain receivables are excluded from these balances.

The following table provides a rollforward of contract assets from contracts with customers, which are recorded in Other current assets and Other assets and deferred charges in the Consolidated Balance Sheet.

(Dollars in millions)	Contract Assets
Balance at December 31, 2018	$ 11
Contract additions	5
Reclassified to receivables	(5)
Balance at March 31, 2019	$ 11

The following table provides a rollforward of contract liabilities from contracts with customers, which are recorded in Customer deposits and deferred revenues and Other deferred liabilities and credits in the Consolidated Balance Sheet.

(Dollars in millions)	Contract Liabilities
Balance at December 31, 2018	$ 203
Contract additions	79
Terminated contracts	(2)
Revenue recognized	(70)
Balance at March 31, 2019	$ 210

Transaction price allocated to the remaining performance obligations

The following table includes estimated service revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period. The estimates represent service revenue to be recognized when services are delivered to customers pursuant to service plan contracts and under certain roaming agreements with other carriers. These estimates are based on contracts in place as of March 31, 2019, and may vary from actual results due to future contract modifications. As a practical expedient, revenue related to contracts of less than one year, generally month-to-month contracts, are excluded from these estimates.

(Dollars in millions)	Service Revenue
Remainder of 2019	$ 335
2020	157
Thereafter	79
Total	$ 571

TDS has certain contracts at U.S. Cellular and TDS Telecom in which it bills an amount equal to a fixed per-unit price multiplied by a variable quantity (e.g., certain roaming agreements with other carriers). Because TDS invoices for such items in an amount that corresponds directly with the value of the performance completed to date, TDS may recognize revenue in that amount. As a practical expedient, these contracts are excluded from the estimate of future revenues expected to be recognized related to performance obligations that are unsatisfied as of the end of a reporting period.

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Amounts Collected from Customers and Remitted to Governmental Authorities

TDS records amounts collected from customers and remitted to governmental authorities on a net basis within a liability account if the amount is assessed upon the customer and TDS merely acts as an agent in collecting the amount on behalf of the imposing governmental authority. If the amount is assessed upon TDS, then amounts collected from customers are recorded in Service revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled $17 million and $23 million for the three months ended March 31, 2019 and 2018, respectively.

Note 3 Fair Value Measurements

As of March 31, 2019 and December 31, 2018, TDS did not have any material financial or nonfinancial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP.

The provisions of GAAP establish a fair value hierarchy that contains three levels for inputs used in fair value measurements. Level 1 inputs include quoted market prices for identical assets or liabilities in active markets. Level 2 inputs include quoted market prices for similar assets and liabilities in active markets or quoted market prices for identical assets and liabilities in inactive markets. Level 3 inputs are unobservable. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. A financial instrument's level within the fair value hierarchy is not representative of its expected performance or its overall risk profile and, therefore, Level 3 assets are not necessarily higher risk than Level 2 assets or Level 1 assets.

TDS has applied the provisions of fair value accounting for purposes of computing the fair value of financial instruments for disclosure purposes as displayed below.

	Level within the Fair Value Hierarchy	March 31, 2019		December 31, 2018	
		Book Value	Fair Value	Book Value	Fair Value
(Dollars in millions)					
Cash and cash equivalents	1	$959	$ 959	$ 921	$ 921
Short-term investments	1	17	17	17	17
Long-term debt					
Retail	2	1,753	1,768	1,753	1,596
Institutional	2	534	585	534	531
Other	2	179	179	182	182

The fair values of Cash and cash equivalents and Short-term investments approximate their book values due to the short-term nature of these financial instruments. Long-term debt excludes lease obligations, other installment arrangements, the current portion of Long-term debt and debt financing costs. The fair value of "Retail" Long-term debt was estimated using market prices for TDS' 7.0% Senior Notes, 6.875% Senior Notes, 6.625% Senior Notes and 5.875% Senior Notes, and U.S. Cellular's 7.25% 2063 Senior Notes, 7.25% 2064 Senior Notes and 6.95% Senior Notes. TDS' "Institutional" debt consists of U.S. Cellular's 6.7% Senior Notes which are traded over the counter. TDS' "Other" debt consists of a senior term loan credit agreement and other borrowings with financial institutions. TDS estimated the fair value of its Institutional and Other debt through a discounted cash flow analysis using the interest rates or estimated yield to maturity for each borrowing, which ranged from 4.25% to 7.50% and 5.03% to 8.00% at March 31, 2019 and December 31, 2018, respectively.

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Note 4 Equipment Installment Plans

TDS sells devices to customers under equipment installment plans over a specified time period. For certain equipment installment plans, after a specified period of time or amount of payments, the customer may have the right to upgrade to a new device and have the remaining unpaid equipment installment contract balance waived, subject to certain conditions, including trading in the original device in good working condition and signing a new equipment installment contract. TDS values this trade-in right as a guarantee liability. The guarantee liability is initially measured at fair value and is determined based on assumptions including the probability and timing of the customer upgrading to a new device and the fair value of the device being traded-in at the time of trade-in. When a customer exercises the trade-in option, both the outstanding receivable and guarantee liability balances related to the respective device are reduced to zero, and the value of the used device that is received in the transaction is recognized as inventory. If the customer does not exercise the trade-in option at the time of eligibility, TDS begins amortizing the liability and records this amortization as additional equipment revenue. As of March 31, 2019 and December 31, 2018, the guarantee liability related to these plans was $11 million and is reflected in Customer deposits and deferred revenues in the Consolidated Balance Sheet.

The following table summarizes equipment installment plan receivables as of March 31, 2019 and December 31, 2018.

	March 31, 2019	December 31, 2018
(Dollars in millions)		
Equipment installment plan receivables, gross	$ 975	$ 974
Allowance for credit losses	(77)	(77)
Equipment installment plan receivables, net	$ 898	$ 897
Net balance presented in the Consolidated Balance Sheet as:		
Accounts receivable — Customers and agents (Current portion)	$ 571	$ 560
Other assets and deferred charges (Non-current portion)	327	337
Equipment installment plan receivables, net	$ 898	$ 897

TDS uses various inputs, including internal data, information from credit bureaus and other sources, to evaluate the credit profiles of its customers. From this evaluation, a credit class is assigned to the customer that determines the number of eligible lines, the amount of credit available, and the down payment requirement, if any. Customers assigned to credit classes requiring no down payment represent a lower risk category, whereas those assigned to credit classes requiring a down payment represent a higher risk category. The balance and aging of the equipment installment plan receivables on a gross basis by credit category were as follows:

	March 31, 2019			December 31, 2018		
	Lower Risk	Higher Risk	Total	Lower Risk	Higher Risk	Total
(Dollars in millions)						
Unbilled	$901	$ 13	$914	$904	$ 17	$921
Billed — current	41	1	42	35	1	36
Billed — past due	17	2	19	15	2	17
Equipment installment plan receivables, gross	$959	$ 16	$975	$954	$ 20	$974

Activity for the three months ended March 31, 2019 and 2018, in the allowance for credit losses for equipment installment plan receivables was as follows:

	March 31, 2019	March 31, 2018
(Dollars in millions)		
Allowance for credit losses, beginning of period	$ 77	$ 65

Bad debts expense	18	14
Write-offs, net of recoveries	(18)	(13)
Allowance for credit losses, end of period	$ 77	$ 66

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Note 5 Earnings Per Share

Basic earnings per share attributable to TDS shareholders is computed by dividing Net income attributable to TDS shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share attributable to TDS shareholders is computed by dividing Net income attributable to TDS shareholders by the weighted average number of common shares outstanding during the period adjusted to include the effects of potentially dilutive securities. Potentially dilutive securities primarily include incremental shares issuable upon the exercise of outstanding stock options and the vesting of performance and restricted stock units.

The amounts used in computing earnings per common share and the effects of potentially dilutive securities on the weighted average number of common shares were as follows:

	Three Months Ended March 31,	
	2019	2018
(Dollars and shares in millions, except per share amounts)		
Basic earnings per share attributable to TDS shareholders:		
Net income attributable to TDS shareholders used in basic earnings per share	$59	$39
Adjustments to compute diluted earnings:		
Noncontrolling interest adjustment	(1)	—
Net income attributable to TDS shareholders used in diluted earnings per share	$58	$39
Weighted average number of shares used in basic earnings per share:		
Common Shares	107	104
Series A Common Shares	7	7
Total	114	111
Effects of dilutive securities	2	2
Weighted average number of shares used in diluted earnings per share	116	113
Basic earnings per share attributable to TDS shareholders	$0.52	$0.35
Diluted earnings per share attributable to TDS shareholders	$0.50	$0.34

Certain Common Shares issuable upon the exercise of stock options or vesting of performance and restricted stock units were not included in average diluted shares outstanding for the calculation of Diluted earnings per share attributable to TDS shareholders because their effects were antidilutive. The number of such Common Shares excluded was less than 1 million and 4 million for the three months ended March 31, 2019 and 2018, respectively.

Note 6 Intangible Assets

Activity related to Licenses for the three months ended March 31, 2019, is presented below:

	Licenses
(Dollars in millions)	
Balance at December 31, 2018	$ 2,195
Acquisitions	1
Exchanges - Licenses received	26
Balance at March 31, 2019	$ 2,222

During 2019, TDS committed to purchase spectrum licenses in the amount of $249 million, subject to regulatory approval. TDS paid $135 million of this amount in the three months ended March 31, 2019, and expects to pay substantially all of the remainder in 2019. This advance payment is included in Other assets and deferred charges in the March 31, 2019 Consolidated Balance Sheet.

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Note 7 Investments in Unconsolidated Entities

Investments in unconsolidated entities consist of amounts invested in entities in which TDS holds a noncontrolling interest.

TDS' Investments in unconsolidated entities are accounted for using either the equity method or measurement alternative method as shown in the table below. The measurement alternative method was elected for investments without readily determinable fair values formerly accounted for under the cost method. The measurement alternative fair value represents cost minus any impairments plus or minus any observable price changes. TDS did not have an impairment or observable price change related to these investments for the three months ended March 31, 2019.

(Dollars in millions)	March 31, 2019	December 31, 2018
Equity method investments	$ 485	$ 459
Measurement alternative method investments	22	21
Total investments in unconsolidated entities	$ 507	$ 480

The following table, which is based in part on information provided by third parties, summarizes the combined results of operations of TDS' equity method investments.

(Dollars in millions)	Three Months Ended March 31, 2019	2018
Revenues	$1,696	$1,663
Operating expenses	1,221	1,213
Operating income	475	450
Other income (expense), net	(6)	(1)
Net income	$469	$449

Note 8 Leases

Change in Accounting Policy

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases and has since amended the standard with Accounting Standards Updates 2018-01, Leases: Land Easement Practical Expedient for Transition to Topic 842, Accounting Standards Update 2018-10, Codification Improvements to Topic 842, Leases, Accounting Standards Update 2018-11, Leases: Targeted Improvements, and Accounting Standards Update 2018-20, Leases: Narrow-Scope Improvements for Lessors, collectively referred to as ASC 842. This standard replaces the previous lease accounting standard under ASC 840 - Leases and requires lessees to record a right-of-use (ROU) asset and lease liability for the majority of leases. TDS adopted the provisions of ASC 842 on January 1, 2019, using a modified retrospective method. Under this method, TDS elected to apply the new accounting standard only to the most recent period presented, recognizing the cumulative effect of the accounting change, if any, as an adjustment to the beginning balance of retained earnings. Accordingly, prior periods have not been recast to reflect the new accounting standard. The cumulative effect of applying the provisions of ASC 842 had no impact on retained earnings as of January 1, 2019.

TDS elected transitional practical expedients for existing leases which eliminated the requirements to reassess existing lease classification, initial direct costs, and whether contracts contain leases. TDS also elected the practical expedient related to land easements that allows it to carry forward the accounting treatment for pre-existing land easement agreements.

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The cumulative effect of the adoption of ASC 842 on TDS' Consolidated Balance Sheet is presented below.

	December 31, 2018	ASC 842 Adjustment	January 1, 2019
(Dollars in millions)			
Prepaid expenses	$ 103	$ (13)	$ 90
Operating lease right-of-use assets	—	975	975
Other assets and deferred charges	616	(12)	604
Short-term operating lease liabilities	—	112	112
Other current liabilities	114	(8)	106
Long-term operating lease liabilities	—	949	949
Other deferred liabilities and credits	541	(103)	438

As a result of the adoption of ASC 842, TDS recorded ROU assets and lease liabilities for its operating leases in its Consolidated Balance Sheet as of January 1, 2019. The lease liabilities are calculated as the discounted value of future lease payments. The difference between the lease liabilities and the corresponding ROU assets is a result of various lease prepayments and straight-line expense recognition deferral balances as of December 31, 2018, which were offset against the ROU assets as of January 1, 2019. Finance leases are included in Property, plant and equipment and Long-term debt, net consistent with presentation under prior accounting standards.

Lessee Agreements

A lease is generally present in a contract if the lessee controls the use of identified property, plant or equipment for a period of time in exchange for consideration. Nearly all of TDS' leases are classified as operating leases, although it does have a small number of finance leases. TDS' most significant leases are for land and tower spaces, network facilities, retail spaces, and offices.

TDS has agreements with both lease and nonlease components, which are accounted for separately. As part of the present value calculation for the lease liabilities, TDS uses an incremental borrowing rate as the rates implicit in the leases are not readily determinable. The incremental borrowing rates used for lease accounting are based on TDS' unsecured rates, adjusted to approximate what TDS would have to borrow on a collateralized basis over a similar period of time as the recognized lease term. TDS applies the incremental borrowing rates to lease components using a portfolio approach based upon the length of the lease term and the reporting entity in which the lease resides. The cost of nonlease components in TDS' lease portfolio (e.g., utilities and common area maintenance) are not typically predetermined at lease commencement and are expensed as incurred at their relative standalone price.

Variable lease expense occurs when, subsequent to the lease commencement, lease payments are made that were not originally included in the lease liability calculation. TDS' variable lease payments are primarily a result of leases with escalations that are tied to an index. The incremental changes due to the index changes are recorded as variable lease expense and are not included in the ROU assets or lease liabilities.

Lease term recognition determines the periods to allocate expense and also has a significant impact on the lease liability and ROU asset calculations. Many of TDS' leases include renewal and early termination options. At lease commencement, the lease terms include options to extend the lease when TDS is reasonably certain that it will exercise the options. The lease terms do not include early termination options unless TDS is reasonably certain to exercise the options. Certain asset classes have similar lease characteristics; therefore, TDS has applied the portfolio approach for lease term recognition for its tower space, retail, and certain ground lease asset classes.

The following table shows the components of lease cost included in the Consolidated Statement of Operations:

	Three Months Ended March 31, 2019
(Dollars in millions)	

Operating lease cost	$	43
Variable lease cost		2
Total lease cost	$	45

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The following table shows supplemental cash flow information related to lease activities:

	Three Months Ended March 31, 2019
(Dollars in millions)	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 41
ROU assets obtained in exchange for lease obligations:	
Operating leases	$ 25
Finance leases	7

The following table shows the classification of TDS' operating and finance leases in its Consolidated Balance Sheet:

	March 31, 2019
(Dollars in millions)	
Operating Leases	
Operating lease right-of-use assets	$965
Short-term operating lease liabilities	$110
Long-term operating lease liabilities	929
Total operating lease liabilities	$1,039
Finance Leases	
Property, plant and equipment	$17
Less: Accumulated depreciation and amortization	4
Property, plant and equipment, net	$13
Current portion of long-term debt	$1
Long-term debt, net	5
Total finance lease liabilities	$6

The table below shows a weighted-average analysis for lease term and discount rate for all leases:

	March 31, 2019	
Weighted Average Remaining Lease Term		
Operating leases	12 years	
Finance leases	22 years	
Weighted Average Discount Rate		
Operating leases	4.5	%
Finance leases	6.9	%

The maturities of lease liabilities are as follows:

	Operating Leases	Finance Leases
(Dollars in millions)		
Remainder of 2019	$ 118	$ 1
2020	161	1

2021	144	—
2022	127	1
2023	111	—
Thereafter	764	14
Total lease payments[1]	$ 1,425	$ 17
Less: Imputed interest	386	11
Present value of lease liabilities	$ 1,039	$ 6

[1] Lease payments exclude $11 million of legally binding lease payments for leases signed but not yet commenced.

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Lessor Agreements

TDS' most significant lessor leases are for tower space and colocation space. All of TDS' lessor leases are classified as operating leases. A lease is generally present in a contract if the lessee controls the use of identified property, plant, or equipment for a period of time in exchange for consideration. TDS' lessor agreements with lease and nonlease components are generally accounted for separately; however, certain service agreements with insignificant lease components are accounted for as nonlease transactions.

Lease term recognition determines the periods to allocate revenue over the term of the lease. Many of TDS' leases include renewal and early termination options. At lease commencement, lease terms include options to extend the lease when TDS is reasonably certain that lessees will exercise the options. Lease terms would not include periods after the date of a termination option that lessees are reasonably certain to exercise.

Variable lease income occurs when, subsequent to the lease commencement, lease payments are received that were not originally included in the lease receivable calculation. TDS' variable lease income is primarily a result of leases with escalations that are tied to an index. The incremental increases due to the index changes are recorded as variable lease income.

The following table shows the components of lease income which are included in service revenue in the Consolidated Statement of Operations:

	Three Months Ended March 31, 2019
(Dollars in millions)	
Operating lease income	$ 22

The maturities of expected lease payments to be received are as follows:

	Operating Leases
(Dollars in millions)	
Remainder of 2019	$ 57
2020	70
2021	37
2022	25
2023	13
Thereafter	10
Total future lease maturities	$ 212

Disclosures under ASC 840

As of December 31, 2018, future minimum rental payments required under operating leases and rental receipts expected under operating leases that have noncancellable lease terms in excess of one year were as follows:

	Operating Leases Future Minimum Rental Payments	Operating Leases Future Minimum Rental Receipts
(Dollars in millions)		
2019	$ 170	$ 59
2020	158	48
2021	142	35
2022	126	23
2023	110	10

Thereafter	784	7
Total	$ 1,490	$ 182

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Note 9 Variable Interest Entities

Consolidated VIEs

TDS consolidates VIEs in which it has a controlling financial interest as defined by GAAP and is therefore deemed the primary beneficiary. A controlling financial interest will have both of the following characteristics: (a) the power to direct the VIE activities that most significantly impact economic performance; and (b) the obligation to absorb the VIE losses and the right to receive benefits that are significant to the VIE. TDS reviews these criteria initially at the time it enters into agreements and subsequently when events warranting reconsideration occur. These VIEs have risks similar to those described in the “Risk Factors” in TDS’ Form 10-K for the year ended December 31, 2018.

During 2017, U.S. Cellular formed USCC EIP LLC (Seller/Sub-Servicer), USCC Receivables Funding LLC (Transferor) and the USCC Master Note Trust (Trust), collectively the special purpose entities (SPEs), to facilitate a securitized borrowing using its equipment installment plan receivables. Under a Receivables Sale Agreement, U.S. Cellular wholly-owned, majority-owned and unconsolidated entities, collectively referred to as “affiliated entities”, transfers device equipment installment plan contracts to the Seller/Sub-Servicer. The Seller/Sub-Servicer aggregates device equipment installment plan contracts, and performs servicing, collection and all other administrative activities related to accounting for the equipment installment plan contracts. The Seller/Sub-Servicer sells the eligible equipment installment plan receivables to the Transferor, a bankruptcy remote entity, which subsequently sells the receivables to the Trust. The Trust, which is bankruptcy remote and isolated from the creditors of U.S. Cellular, will be responsible for issuing asset-backed variable funding notes (Notes), which are collateralized by the equipment installment plan receivables owned by the Trust. Given that U.S. Cellular has the power to direct the activities of these SPEs, and that these SPEs lack sufficient equity to finance their activities, U.S. Cellular is deemed to have a controlling financial interest in the SPEs and, therefore, consolidates them. All transactions with third parties (e.g., issuance of the asset-backed variable funding notes) will be accounted for as a secured borrowing due to the pledging of equipment installment plan contracts as collateral, significant continuing involvement in the transferred assets, subordinated interests of the cash flows, and continued evidence of control of the receivables.

The following VIEs were formed to participate in FCC auctions of wireless spectrum and to fund, establish, and provide wireless service with respect to any FCC licenses won in the auctions:

Advantage Spectrum, L.P. (Advantage Spectrum) and Sunshine Spectrum, Inc., the general partner of Advantage Spectrum; and

King Street Wireless, L.P. (King Street Wireless) and King Street Wireless, Inc., the general partner of King Street Wireless.

These particular VIEs are collectively referred to as designated entities. The power to direct the activities that most significantly impact the economic performance of these VIEs is shared. Specifically, the general partner of these VIEs has the exclusive right to manage, operate and control the limited partnerships and make all decisions to carry on the business of the partnerships. The general partner of each partnership needs the consent of the limited partner, an indirect TDS subsidiary, to sell or lease certain licenses, to make certain large expenditures, admit other partners or liquidate the limited partnerships. Although the power to direct the activities of these VIEs is shared, TDS has the most significant level of exposure to the variability associated with the economic performance of the VIEs, indicating that TDS is the primary beneficiary of the VIEs. Therefore, in accordance with GAAP, these VIEs are consolidated.

TDS also consolidates other VIEs that are limited partnerships that provide wireless service. A limited partnership is a variable interest entity unless the limited partners hold substantive participating rights or kick-out rights over the general partner. For certain limited partnerships, U.S. Cellular is the general partner and manages the operations. In these partnerships, the limited partners do not have substantive kick-out or participating rights and, further, such limited partners do not have the authority to remove the general partner. Therefore, these limited partnerships are also recognized as VIEs and are consolidated under the variable interest model.

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The following table presents the classification and balances of the consolidated VIEs' assets and liabilities in TDS' Consolidated Balance Sheet.

	March 31, 2019	December 31, 2018
(Dollars in millions)		
Assets		
Cash and cash equivalents	$ 8	$ 9
Short-term investments	17	17
Accounts receivable	617	609
Inventory, net	4	5
Other current assets	5	5
Licenses	647	647
Property, plant and equipment, net	85	88
Operating lease right-of-use assets	37	—
Other assets and deferred charges	338	347
Total assets	$ 1,758	$ 1,727
Liabilities		
Current liabilities	$ 34	$ 31
Long-term operating lease liabilities	34	—
Deferred liabilities and credits	12	15
Total liabilities	$ 80	$ 46

Unconsolidated VIEs

TDS manages the operations of and holds a variable interest in certain other limited partnerships, but is not the primary beneficiary of these entities and, therefore, does not consolidate them under the variable interest model. TDS' total investment in these unconsolidated entities was $4 million at both March 31, 2019 and December 31, 2018, and is included in Investments in unconsolidated entities in TDS' Consolidated Balance Sheet. The maximum exposure from unconsolidated VIEs is limited to the investment held by TDS in those entities.

Other Related Matters

TDS made contributions, loans and/or advances to its VIEs totaling $183 million and $19 million, during the three months ended March 31, 2019 and 2018, respectively; of which $168 million in 2019 and $10 million in 2018, are related to USCC EIP LLC as discussed above. TDS may agree to make additional capital contributions and/or advances to these or other VIEs and/or to their general partners to provide additional funding for operations or the development of licenses granted in various auctions. TDS may finance such amounts with a combination of cash on hand, borrowings under its revolving credit agreement and/or other long-term debt. There is no assurance that TDS will be able to obtain additional financing on commercially reasonable terms or at all to provide such financial support.

The limited partnership agreements of Advantage Spectrum and King Street Wireless also provide the general partner with a put option whereby the general partner may require the limited partner, a subsidiary of U.S. Cellular, to purchase its interest in the limited partnership. The general partner's put options related to its interests in King Street Wireless will become exercisable in 2019. The general partner's put options related to its interest in Advantage Spectrum will become exercisable in 2021 and 2022. The greater of the carrying value of the general partner's investment or the value of the put option, net of any borrowings due to TDS, is recorded as Noncontrolling interests with redemption features in TDS' Consolidated Balance Sheet. Also in accordance with GAAP, minority share of income or changes in the redemption value of the put options, net of interest accrued on the loans, are recorded as a component of Net income attributable to noncontrolling interests, net of tax, in TDS' Consolidated Statement of Operations.

During the first quarter of 2018, TDS recorded an out-of-period adjustment attributable to 2016 and 2017 due to errors in the application of accounting guidance applicable to the calculation of Noncontrolling interests with redemption features related to King Street Wireless, Inc. This out-of-period adjustment had the impact of increasing Net income attributable to noncontrolling interests, net of tax, by $6 million and decreasing Net income attributable to TDS shareholders by $6 million for the three months ended March 31, 2018. TDS determined that this adjustment was not material to any of the periods impacted.

Note 10 Noncontrolling Interests

The following schedule discloses the effects of Net income attributable to TDS shareholders and changes in TDS' ownership interest in U.S. Cellular on TDS' equity:

Three Months Ended March 31,	2019	2018
(Dollars in millions)		
Net income attributable to TDS shareholders	$59	$39
Transfers to noncontrolling interests		
Change in TDS' Capital in excess of par value from U.S. Cellular's issuance of U.S. Cellular shares	(2)	(2)
Change in TDS' Capital in excess of par value from U.S. Cellular's repurchases of U.S. Cellular shares	—	—
Purchase of ownership in subsidiaries from noncontrolling interests	—	—
Net transfers to noncontrolling interests	(2)	(2)
Change from net income attributable to TDS and transfers to noncontrolling interests	$57	$37

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Note 11 Business Segment Information

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

Financial data for TDS' reportable segments for the three month periods ended, or as of March 31, 2019 and 2018, is as follows. See Note 1 — Basis of Presentation for additional information.

		TDS Telecom				
Three Months Ended or as of March 31, 2019	U.S. Cellular	Wireline	Cable	TDS Telecom Total[1]	Corporate, Eliminations and Other	Total
(Dollars in millions)						
Operating revenues						
Service	$741	$170	$60	$230	$ 24	$995
Equipment and product sales	225	—	—	—	37	262
Total operating revenues	966	171	60	230	61	1,257
Cost of services (excluding Depreciation, amortization and accretion reported below)	176	63	26	88	20	284
Cost of equipment and products	233	—	—	—	31	264
Selling, general and administrative	326	47	14	61	10	397
Depreciation, amortization and accretion	169	34	17	50	8	227
(Gain) loss on asset disposals, net	2	(7)	—	(7)	—	(5)
(Gain) loss sale of business and other exit costs, net	(2)	—	—	—	—	(2)
(Gain) loss on license sales and exchanges, net	(2)	—	—	—	—	(2)
Operating income (loss)	64	34	2	37	(7)	94
Equity in earnings of unconsolidated entities	44	—	—	—	—	44
Interest and dividend income	6	3	—	3	—	9
Interest expense	(29)	1	—	—	(14)	(43)
Other, net	—	—	—	—	—	—
Income (loss) before income taxes	85	38	3	40	(21)	104
Income tax expense (benefit)[2]	27			10	(3)	34
Net income (loss)	58			31	(19)	70
Add back:						
Depreciation, amortization and accretion	169	34	17	50	8	227
(Gain) loss on asset disposals, net	2	(7)	—	(7)	—	(5)
(Gain) loss sale of business and other exit costs, net	(2)	—	—	—	—	(2)
(Gain) loss on license sales and exchanges, net	(2)	—	—	—	—	(2)
Interest expense	29	(1)	—	—	14	43
Income tax expense (benefit)[2]	27			10	(3)	34
Adjusted EBITDA[3]	$281	$63	$20	$83	$ 1	$365
Investments in unconsolidated entities	$468	$4	$—	$4	$ 35	$507
Total assets	$8,229	$1,353	$641	$1,986	$ 572	$10,787
Capital expenditures	$102	$29	$13	$42	$ 3	$147

Numbers may not foot due to rounding.

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Three Months Ended or as of March 31, 2018	U.S. Cellular	TDS Telecom Wireline	Cable	TDS Telecom Total[1]	Corporate, Eliminations and Other	Total
(Dollars in millions)						
Operating revenues						
Service	$724	$175	$55	$ 230	$ 24	$978
Equipment and product sales	218	—	—	—	29	247
Total operating revenues	942	175	55	231	52	1,225
Cost of services (excluding Depreciation, amortization and accretion reported below)	179	65	26	90	19	288
Cost of equipment and products	219	—	—	—	27	246
Selling, general and administrative	326	47	13	60	9	395
Depreciation, amortization and accretion	159	37	17	54	8	221
(Gain) loss on asset disposals, net	1	—	—	—	1	2
(Gain) loss on license sales and exchanges, net	(7)	—	—	—	—	(7)
Operating income (loss)	65	26	(1)	25	(10)	80
Equity in earnings of unconsolidated entities	38	—	—	—	—	38
Interest and dividend income	4	1	—	1	—	5
Interest expense	(29)	—	—	—	(14)	(43)
Other, net	(1)	1	—	1	1	1
Income (loss) before income taxes	77	28	(1)	27	(23)	81
Income tax expense (benefit)[2]	22			6	(4)	24
Net income (loss)	55			21	(19)	57
Add back:						
Depreciation, amortization and accretion	159	37	17	54	8	221
(Gain) loss on asset disposals, net	1	—	—	—	1	2
(Gain) loss on license sales and exchanges, net	(7)	—	—	—	—	(7)
Interest expense	29	—	—	—	14	43
Income tax expense (benefit)[2]	22			6	(4)	24
Adjusted EBITDA[3]	$259	$65	$16	$ 81	$ —	$340
Investments in unconsolidated entities	$450	$4	$—	$ 4	$ 34	$488
Total assets	$7,048	$1,264	$644	$ 1,901	$ 532	$9,481
Capital expenditures	$70	$29	$11	$ 40	$ 5	$115

Numbers may not foot due to rounding.

1 TDS Telecom Total includes eliminations between the Wireline and Cable segments.

2 Income tax expense (benefit) is not provided at the individual segment level for Wireline and Cable. TDS calculates income tax expense for “TDS Telecom Total”.

3 Adjusted earnings before interest, taxes, depreciation, amortization and accretion (Adjusted EBITDA) is a segment measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. Adjusted EBITDA is defined as net income, adjusted for the items set forth in the reconciliation above. TDS believes Adjusted EBITDA is a useful measure of TDS’ operating results before significant recurring non-cash charges, gains and losses, and other items as presented above as they provide additional relevant and useful information to investors and other users of TDS' financial data in evaluating the effectiveness of its operations and underlying business trends in a manner that is consistent with management's evaluation of business performance.

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Telephone and Data Systems, Inc.
Additional Required Information

Controls and Procedures
Evaluation of Disclosure Controls and Procedures
TDS maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to TDS' management, including its principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.
As required by SEC Rules 13a-15(b), TDS carried out an evaluation, under the supervision and with the participation of management, including its principal executive officer and principal financial officer, of the effectiveness of the design and operation of TDS' disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, TDS' principal executive officer and principal financial officer concluded that TDS' disclosure controls and procedures were effective as of March 31, 2019, at the reasonable assurance level.
Changes in Internal Control Over Financial Reporting
There have been no changes in internal controls over financial reporting that have occurred during the three months ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, TDS' internal control over financial reporting, except as follows: TDS implemented internal controls to ensure that, upon adoption of the new lease accounting standard codified in ASC 842, effective January 1, 2019, and for all periods thereafter, the financial statements will be presented in accordance with this new accounting standard.
Legal Proceedings
The United States Department of Justice (DOJ) has notified TDS, that it is conducting inquiries of U.S. Cellular and TDS under the federal False Claims Act. The DOJ is investigating U.S. Cellular's participation in spectrum auctions 58, 66, 73 and 97 conducted by the FCC. U.S. Cellular is a limited partner in several limited partnerships which qualified for the 25% bid credit in each auction. TDS and U.S. Cellular are cooperating with the DOJ's review. TDS and U.S. Cellular believe that U.S. Cellular's arrangements with the limited partnerships and the limited partnerships' participation in the FCC auctions complied with applicable law and FCC rules. At this time, TDS cannot predict the outcome of this review.
Refer to the disclosure under Legal Proceedings in TDS' Form 10-K for the year ended December 31, 2018, for additional information. There have been no material changes to such information since December 31, 2018.
Unregistered Sales of Equity Securities and Use of Proceeds
On August 2, 2013, the Board of Directors of TDS authorized, and TDS announced by Form 8-K, a $250 million stock repurchase program for TDS Common Shares. Depending on market conditions, such shares may be repurchased in compliance with Rule 10b-18 of the Exchange Act, pursuant to Rule 10b5-1 under the Exchange Act, or pursuant to accelerated share repurchase arrangements, prepaid share repurchases, private transactions or as otherwise authorized. This authorization does not have an expiration date. TDS did not determine to terminate the foregoing Common Share repurchase program, or cease making further purchases thereunder, during the first quarter of 2019.
The maximum dollar value of shares that may yet be purchased under this program was $199 million as of March 31, 2019. There were no purchases made by or on behalf of TDS, and no open market purchases made by any "affiliated purchaser" (as defined by the SEC) of TDS, of TDS Common Shares during the quarter covered by this Form 10-Q.

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Other Information

The following information is being provided to update prior disclosures made pursuant to the requirements of Form 8-K, Item 2.03 — Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of a Registrant.

Neither TDS nor U.S. Cellular borrowed or repaid any cash amounts under their revolving credit agreements in the first quarter of 2019 or through the filing date of this Form 10-Q, and had no cash borrowings outstanding under their revolving credit agreements as of March 31, 2019, or as of the filing date of this Form 10-Q.

Further, U.S. Cellular did not borrow or repay any cash amounts under its receivables securitization agreement in the first quarter of 2019 or through the filing date of this Form 10-Q, and had no cash borrowings outstanding under its receivables securitization agreement as of March 31, 2019, or as of the filing date of this Form 10-Q.

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Exhibits

Exhibit Number	Description of Documents
Exhibit 4.1	Third Amendment to Amended and Restated Term Loan Credit Agreement, among U.S. Cellular, CoBank, ACB, as administrative agent, and the other lenders thereto, dated as of March 14, 2019, is hereby incorporated by reference to Exhibit 4.1 to U.S. Cellular's Current Report on Form 10-Q for the period ended March 31, 2019.
Exhibit 10.1	TDS 2019 Officer Bonus Program is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K dated March 12, 2019.
Exhibit 10.2	Form of 2019 TDS Performance Share Award Agreement is hereby incorporated by reference to Exhibit 10.2 to TDS' Current Report on Form 8-K dated March 12, 2019.
Exhibit 10.3	Form of U.S. Cellular 2013 Long-Term Incentive Plan 2019 Performance Award Agreement for the President and CEO of U.S. Cellular is hereby incorporated by reference to Exhibit 10.2 to U.S. Cellular's Current Report on Form 8-K dated March 12, 2019.
Exhibit 31.1	Principal executive officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.
Exhibit 31.2	Principal financial officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.
Exhibit 32.1	Principal executive officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
Exhibit 32.2	Principal financial officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.PRE	XBRL Taxonomy Presentation Linkbase Document
Exhibit 101.CAL	XBRL Taxonomy Calculation Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Label Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

The foregoing exhibits include only the exhibits that relate specifically to this Form 10-Q or that supplement the exhibits identified in TDS' Form 10-K for the year ended December 31, 2018. Reference is made to TDS' Form 10-K for the year ended December 31, 2018, for a complete list of exhibits, which are incorporated herein except to the extent supplemented or superseded above.

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Form 10-Q Cross Reference Index

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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: May 2, 2019	/s/ LeRoy T. Carlson, Jr. LeRoy T. Carlson, Jr. President and Chief Executive Officer (principal executive officer)
Date: May 2, 2019	/s/ Douglas W. Chambers Douglas W. Chambers Senior Vice President - Finance and Chief Accounting Officer (principal financial officer and principal accounting officer)
Date: May 2, 2019	/s/ Anita J. Kroll Anita J. Kroll Vice President and

Controller

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