

TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-K/A
April 26, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2004

OR

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

Commission file number 001-14157

TELEPHONE AND DATA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

| | | |
|---|--|-----------------------------------|
| Delaware | | 36-2669023 |
| (State or other jurisdiction of incorporation or organization) | | (IRS Employer Identification No.) |
| 30 North LaSalle Street, Chicago, Illinois | | 60602 |
| (Address of principal executive offices) | | (Zip code) |
| Registrant's Telephone Number: (312) 630-1900 | | |

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| |
|---|
| Securities registered pursuant to Section 12(b) of the Act: |
|---|

| Title of each class | Name of each exchange on which registered |
|--------------------------------|---|
| Common Shares, \$.01 par value | American Stock Exchange |
| 7.60% Series A Notes due 2041 | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: **None**

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicated by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes No

As of June 30, 2004, the aggregate market values of the registrant's Common Shares, Series A Common Shares and Preferred Shares held by non-affiliates were approximately \$2.8 billion, \$19.7 million and \$4.7 million, respectively. For purposes hereof, it was assumed that each director, executive officer and holder of 10% or more of the voting power of TDS and U.S. Cellular is an affiliate. The closing price of the Common Shares on June 30, 2004, was \$71.20, as reported by the American Stock Exchange. Because no market exists for the Series A Common Shares and Preferred Shares, the registrant has assumed for purposes hereof that (i) each Series A Common Share has a market value equal to one Common Share because the Series A Common Shares were initially issued by the registrant in exchange for Common Shares on a one-for-one basis and are convertible on a share-for-share basis into Common Shares, (ii) each nonconvertible Preferred Share has a market value of \$100 because each of such shares had a stated value of \$100 when issued, and (iii) each convertible Preferred Share has a value of \$71.20 times the number of Common Shares into which it was convertible on June 30, 2004.

The number of shares outstanding of each of the registrant's classes of common stock, as of January 31, 2005, is 51,054,094 Common Shares, \$.01 par value, and 6,425,774 Series A Common Shares, \$.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

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Those sections or portions of the registrant's 2004 Annual Report to Shareholders and of the registrant's Notice of Annual Meeting of Shareholders and Proxy Statement for its 2005 Annual Meeting of Shareholders held on May 5, 2005, described in the cross reference sheet and table of contents attached hereto are incorporated by reference into Part II and III of this report.

Explanatory Note

Telephone and Data Systems, Inc. (TDS) is filing this Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2004, which was originally filed with the Securities and Exchange Commission (SEC) on March 11, 2005 (Original Form 10-K), to amend Item 1 Business, Item 2 Properties, Item 6 Selected Financial Data, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), Item 8 Financial Statements and Supplementary Data, Item 9A Controls and Procedures, Item 9B Other Information and Item 15 Exhibits and Financial Statement Schedules.

As discussed in Note 1 to the Consolidated Financial Statements, on November 9, 2005, TDS and its audit committee concluded that TDS would amend its Annual Report on Form 10-K for the year ended December 31, 2004 to restate its financial statements and financial information for each of the three years in the period ended December 31, 2004, including quarterly information for 2004 and 2003, and certain selected financial data for the years 2001 and 2000. TDS and its audit committee also concluded that TDS would amend its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2005 and June 30, 2005 to restate the financial statements and financial information included therewith.

The restatement adjustments principally correct items that were recorded in the financial statements previously but not in the proper periods and certain income tax, interest income and consolidation errors. Correction of the errors, with the exception of income taxes discussed below, individually did not have a material impact on income before income taxes and minority interest, net income or earnings per share; however, when aggregated, the items were considered to be material. The restatement adjustments to correct income tax accounting had a material impact individually on net income and earnings per share in prior periods. The restated financial statements are adjusted to record certain obligations in the periods such obligations were incurred, correct the timing of the reversal of certain tax liabilities, correct the consolidation of an 80% owned subsidiary, and record revenues in the periods such revenues were earned. The adjustments are described below.

Income taxes In the restatement, TDS corrected its income tax expense, federal and state taxes payable, liabilities accrued for tax contingencies, deferred income tax assets and liabilities and related disclosures for the years ended December 31, 2004, 2003 and 2002 for items identified based on a reconciliation of income tax accounts. The reconciliation compared amounts used for financial reporting purposes to the amounts used in the preparation of the income tax returns, and took into consideration the results of federal and state income tax audits and the resulting book/tax basis differences which generate deferred tax assets and liabilities. In addition, a review of the state deferred income tax rates used to establish deferred income tax assets and liabilities identified errors in the state income tax rate used which resulted in adjustments to correct the amount of deferred income tax assets and liabilities recorded for temporary differences between the timing of when certain transactions are recognized for financial and income tax reporting.

Federal universal service fund (USF) contributions In 2004 and 2003, Universal Service Administrative Company (USAC) billings to U.S. Cellular for USF contributions were based on estimated revenues reported to USAC by U.S. Cellular in accordance with USAC's established procedures. However, U.S. Cellular's actual liability for USF is based upon its actual revenues and USAC's established procedures provide a method to adjust U.S. Cellular's estimated liability to its actual liability. In the first six months of 2005 and the full years of 2004 and 2003, U.S. Cellular's actual revenues exceeded estimated revenues reported to USAC on an interim basis. As a result, additional amounts were due to USAC in 2005 and 2004 based on U.S. Cellular's annual report filings. Such additional amounts were incorrectly expensed when the invoices were received from USAC rather than at the time the obligation was incurred. In the third quarter of 2005, U.S. Cellular corrected its accounting for USF contributions to record expense reflecting

the estimated obligation incurred based on actual revenues reported during the period. Accordingly, in the restatement, TDS has adjusted previously reported USF contributions expense by U.S. Cellular to reflect the estimated liability incurred during the period.

Customer contract termination fees In the fourth quarter of 2003, U.S. Cellular revised its business practices related to the billing of contract termination fees charged when a customer disconnected service prior to the end of the customer's contract. This change resulted in an increase in amounts billed to customers and revenues even though a high percentage of the amounts billed were deemed uncollectible. At the time of the change in business practice, U.S. Cellular incorrectly recorded revenues related to such fees at the time of billing, as generally accepted accounting principles (GAAP) would preclude revenue recognition if the receivable is not reasonably assured of collection. In the first quarter of 2005, U.S. Cellular corrected its accounting to record revenues related to such fees only upon collection, in recognition of the fact that the collectibility of the revenues was not reasonably assured at the time of billing. In the restatement, TDS made adjustments to properly reflect U.S. Cellular's revenues for such fees upon collection beginning on October 1, 2003.

Leases and contracts TDS and U.S. Cellular had entered into certain operating leases (as both lessee and lessor) that provide for specific scheduled increases in payments over the lease term. In the third quarter of 2004, TDS made adjustments for the cumulative effect which were not considered to be material to either that quarter or to prior periods to correct its accounting and to recognize revenues and expenses under such agreements on a straight-line basis over the term of the lease in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases, as amended, and related pronouncements. In addition, the accounting for certain other long-term contracts, for which a cumulative effect adjustment was made in the first quarter of 2005, was corrected to recognize expenses in the appropriate periods. The restatement adjustments reverse the cumulative amounts previously recorded in the third quarter of 2004 and the first quarter of 2005, and properly record such revenues and expenses on a straight-line basis in the appropriate periods.

Promotion rebates From time to time, U.S. Cellular's sales promotions include rebates on sales of handsets to customers. In such cases, U.S. Cellular reduces revenues and records a liability at the time of sale reflecting an estimate of rebates to be paid under the promotion. Previously, the accrued liability was not adjusted on a timely basis upon expiration of the promotion to reflect the actual amount of rebates paid based upon information available at the date the financial statements were issued. In the restatement, TDS has corrected revenues and accrued liabilities to reflect the impacts associated with promotion rebates in the appropriate periods.

Operations of consolidated partnerships managed by a third party Historically, U.S. Cellular recorded the results of operations of certain consolidated partnerships managed by a third party on an estimated basis, and adjusted such estimated results to the actual results upon receipt of financial statements in the following quarter. However, GAAP requires that the actual amounts be used. In the restatement, TDS has corrected its financial statements to recognize results of operations in the appropriate period based on the partnerships' actual results of operations reported for such periods.

Investment income from entities accounted for by the equity method Historically, U.S. Cellular recorded an estimate each quarter of its proportionate share of net income (loss) from certain entities accounted for by the equity method, and adjusted such estimate to the actual share of net income (loss) upon receipt of financial statements in the following quarter. However, GAAP requires that the actual amounts be used. In the restatement, TDS has corrected its financial statements to recognize investment income in the appropriate period based on the entities' actual net income (loss) reported for such periods.

Historically, TDS had not fully consolidated its 80%-owned subsidiary, Suttle Straus, to present the operating results of such subsidiary in revenues, cost of service, selling, general and administrative expenses and depreciation. Previously, the net operating results of the subsidiary were included in other income (expense). However, the non-operating portion of the income statement of Suttle Straus was properly presented. The restatement correctly consolidated the results of Suttle Straus. Also, property, plant and equipment was corrected to properly include Suttle Straus' fixed assets. Previously, the balances were included in other assets and deferred charges. In addition, certain intercompany elimination entries between TDS, U.S. Cellular, TDS Telecom and Suttle Straus have been recorded.

Revenue and cost of service accruals TDS Telecom reviewed accruals in the first and second quarter of 2004 and determined that an adjustment was required to record unbilled revenue related to its competitive local exchange carrier that were not previously recorded. TDS Telecom also reduced cost of service accruals related to long-distance service as a result of shifting long-distance traffic to a second provider. In the restatement, the adjustments reverse the cumulative amounts previously recorded in the first and second quarters of 2004, and record such revenues and expenses in the appropriate periods.

Consolidated statements of cash flows In the restatement, the classification of cash distributions received from unconsolidated entities has been corrected to properly reflect cash received, which represents a return on investment in the unconsolidated entities, as cash flows from operating activities; previously, the cash received on such investments was classified as cash flows from investing activities. Also, the classification of certain noncash stock-based compensation expense has been corrected to properly reflect such noncash expense as an adjustment to cash flows from operating activities; previously, such expense was classified as cash flows from financing activities.

Interest income In the restatement, TDS corrected its accounting for recording interest income earned by its subsidiaries through a cash management agreement for the years ended December 31, 2004, 2003 and 2002. TDS subsidiaries participating in the cash management agreement had not recorded an accrual to increase cash and interest income for their portion of the interest income earned. The correcting entries increased cash and interest income for each period presented.

Other items In addition to the adjustments described above, TDS recorded a number of other adjustments to correct and record revenues and expenses in the periods in which such revenues and expenses were earned or incurred. These adjustments were not significant, either individually or in aggregate.

In connection with the restatement, TDS concluded that certain material weaknesses existed in its internal control over financial reporting. See Part II Item 9A Controls and Procedures.

For the convenience of the reader, this Form 10-K/A sets forth the Original Form 10-K, as amended hereby, in its entirety. However, this Form 10-K/A amends and restates only Items 1, 2, 6, 7, 8, 9A, 9B and 15 of the Original Form 10-K, in each case solely as a result of and to reflect the adjustments discussed above and more fully in Note 1 of the accompanying financial statements, and no other information in the Original Form 10-K is amended hereby. The foregoing items have not been updated to reflect other events occurring after the filing of the Original Form 10-K, or to modify or update those disclosures affected by other subsequent events. In particular, forward-looking statements included in the Form 10-K/A represented management's views as of the date of filing of the Original Form 10-K for the year ended December 31, 2004 on March 11, 2005. Such forward-looking statements should not be assumed to be accurate as of any future date. TDS undertakes no duty to update such information whether as a result of new information, future events or otherwise.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by TDS's principal executive officer and principal financial officer are being filed with this Form 10-K/A as Exhibits 31.1, 31.2, 32.1 and 32.2. In addition, Exhibits 23.1 and 23.2 have been amended to contain currently-dated consents of independent registered public accounting firms.

CROSS REFERENCE SHEET

AND

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(1) Parenthetical references are to information incorporated by reference from the registrant's Exhibit 13, which includes portions of its Annual Report to Shareholders for the year ended December 31, 2004 (Annual Report) and from the registrant's Notice of Annual Meeting of Shareholders and Proxy Statement for its 2005 Annual Meeting of Shareholders held on May 5, 2005 (Proxy Statement).

(2) Annual Report sections entitled TDS Stock and Dividend Information and Consolidated Quarterly Information (Unaudited).

(3) Annual Report section entitled Selected Consolidated Financial Data.

- (4) Annual Report section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (5) Annual Report section entitled Market Risk.
- (6) Annual Report sections entitled Consolidated Statements of Operations, Consolidated Statements of Cash Flows, Consolidated Balance Sheets, Consolidated Statements of Common Stockholders' Equity, Notes to Consolidated Financial Statements, Consolidated Quarterly Information (Unaudited), Management's Report on Internal Control Over Financial Reporting and Report of Independent Registered Public Accounting Firm.
- (7) Proxy Statement sections entitled Election of Directors, Executive Officers and Section 16(a) Beneficial Ownership Reporting Compliance.
- (8) Proxy Statement section entitled Executive Compensation, except for the information specified in Item 402(a)(8) of Regulation S-K under the Securities Exchange Act of 1934, as amended.
- (9) Proxy Statement sections entitled Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters and Securities Authorized for Issuance under Equity Compensation Plans.
- (10) Proxy Statement section entitled Certain Relationships and Related Transactions.
- (11) Proxy Statement section entitled Fees Paid to Principal Accountants.

Telephone and Data Systems, Inc.

30 NORTH LASALLE STREET, CHICAGO, ILLINOIS 60602

TELEPHONE (312) 630-1900

PART I

Item 1. Business

Telephone and Data Systems, Inc. (TDS), is a diversified telecommunications service company with wireless telephone and wireline telephone operations. At December 31, 2004, TDS served approximately 6.1 million customers in 36 states, including 4,945,000 wireless telephone customers and 1,157,200 wireline telephone equivalent access lines. United States Cellular Corporation (U.S. Cellular) provided 76% of TDS 's consolidated revenues and 83% of consolidated operating income in 2004. TDS Telecom provided 24% of consolidated revenues and 17% of consolidated operating income in 2004. Suttle Straus provided less than 1% of consolidated revenues and consolidated operating income in 2004. TDS 's business strategy is to expand its existing operations through internal growth and acquisitions and to explore and develop other telecommunications businesses that management believes will utilize TDS expertise in customer focused telecommunications services.

TDS conducts substantially all of its wireless operations through U.S. Cellular. At December 31, 2004, TDS owned 82.0% of the combined total of the outstanding Common Shares and Series A Common Shares of U.S. Cellular and controlled 95.9% of the combined voting power of both classes of common stock. U.S. Cellular Common Shares are traded on the American Stock Exchange under the symbol USM. At December 31, 2004, U.S. Cellular provided wireless telephone service to 4,945,000 customers through the operations of 175 majority-owned (consolidated) wireless licenses throughout the United States. Since 1985, when U.S. Cellular began providing wireless service in Knoxville, Tennessee and Tulsa, Oklahoma, U.S. Cellular has expanded its wireless networks and customer service operations to cover six market areas in 27 states as of December 31, 2004. Through a 2003 exchange transaction, U.S. Cellular has rights to wireless licenses covering territories in two additional states and has the rights to commence service in those licensed areas in the future. The wireless licenses that U.S. Cellular currently includes in its consolidated operations cover a total population of more than one million in each market area, including its Midwest/Southwest market area, which covers a total population of more than 31 million, and one market area which covers a total population of more than five million.

TDS conducts its wireline telephone operations through its wholly owned subsidiary, TDS Telecommunications Corporation (TDS Telecom). At December 31, 2004, TDS Telecom served 1,157,200 equivalent access lines in 30 states through its incumbent local exchange carrier and competitive local exchange carrier telephone companies. An equivalent access line is derived by converting a high capacity data line to an estimated equivalent, in terms of capacity, number of switched access lines. An incumbent local exchange carrier is an independent local telephone company that formerly had the exclusive right and responsibility to provide local transmission and switching services in its designated service territory. TDS Telecom is expanding by offering additional lines of telecommunications products and services to existing customers and through the selective acquisition of local exchange telephone companies serving rural and suburban areas. TDS Telecom has acquired eight telephone companies since the beginning of 2000. These acquisitions added 82,200 equivalent access lines during this five-year period, while internal growth added 64,900 equivalent access lines. TDS Telecom also began offering services as a competitive local exchange carrier in 1998 in certain mid-sized cities which are near existing TDS Telecom incumbent local exchange carrier markets. Competitive local exchange carrier is a term that depicts companies that enter the operating areas of incumbent local exchange telephone companies to offer local exchange and other telephone services. At December 31, 2004, TDS Telecom 's competitive local exchange carriers served 426,800 equivalent access lines in five states.

TDS conducts printing and distribution services through its 80%-owned subsidiary, Suttle Straus.

TDS was incorporated in 1968 and changed its corporate domicile from Iowa to Delaware in 1998. TDS executive offices are located at 30 North LaSalle Street, Chicago, Illinois 60602. Its telephone number is 312-630-1900.

Available Information

TDS's website is <http://www.teldta.com>. Anyone may access, free of charge, through the Investor Relations portion of the website the TDS annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practical after such material is electronically filed with the Securities and Exchange Commission (SEC).

Special Common Share Proposal

On February 17, 2005, the TDS Board of Directors (the TDS Board) unanimously approved a proposal (the Special Common Share Proposal), to be submitted to TDS shareholders at a special meeting of shareholders of TDS scheduled for April 11, 2005, to approve an amendment (the Amendment) to the Restated Certificate of Incorporation of TDS to increase the authorized number of Special Common Shares of TDS from 20,000,000 to 165,000,000.

On February 17, 2005, the TDS Board also approved a distribution of one Special Common Share in the form of a stock dividend with respect to each outstanding Common Share and Series A Common Share of TDS (the Distribution), which is expected to be effective May 13, 2005 to shareholders of record on April 29, 2005, subject to the approval of the Special Common Share Proposal by shareholders, the effectiveness of the Amendment, and certain other conditions.

Following approval and effectiveness of the Special Common Share Proposal, at some time in the future TDS may possibly offer to issue Special Common Shares in exchange for all of the Common Shares of U.S. Cellular which are not owned by TDS (a Possible U.S. Cellular Transaction). TDS currently owns approximately 82% of the shares of common stock of U.S. Cellular. A Possible U.S. Cellular Transaction would cause U.S. Cellular to become a wholly owned subsidiary of TDS. TDS has set no time frame for a Possible U.S. Cellular Transaction and there are no assurances that a transaction will occur.

Reference is made to the proxy statement of TDS filed with the SEC relating to the special meeting scheduled for April 11, 2005 for additional information relating to the foregoing, which is incorporated by reference herein.

U.S. Cellular Operations

TDS's wireless operations are conducted through U.S. Cellular and its subsidiaries. U.S. Cellular provides wireless telephone service to 4,945,000 customers through the operations of 175 majority-owned (consolidated) wireless licenses throughout the United States. Since 1985, when it began providing cellular service in Knoxville, Tennessee and Tulsa, Oklahoma, U.S. Cellular has expanded its wireless networks and customer service operations to cover six market areas in 27 states as of December 31, 2004. Through a 2003 exchange transaction, U.S. Cellular has rights to wireless licenses covering territories in two additional states and has the rights to commence service in those licensed areas in the future. The wireless licenses that U.S. Cellular currently includes in its consolidated operations cover a total population of more than one million in each market area, including its Midwest/Southwest market area, which covers a total population of more than 31 million, and one other market area which covers a total population of more than five million.

U.S. Cellular's ownership interests in wireless licenses include interests in licenses covering 150 cellular metropolitan statistical areas (as designated by the U.S. Office of Management and Budget and used by the Federal Communications Commission (FCC) in designating metropolitan cellular market areas) or rural service areas (as used by the FCC in designating non-metropolitan statistical area cellular market areas) (cellular licenses) and 49 personal communications service basic trading areas (used by the FCC in dividing the United States into personal communications service market areas for licenses in Blocks C through F). Of those interests, U.S. Cellular owns controlling interests in 126 cellular licenses and each of the 49 personal communications service basic trading areas. U.S. Cellular also owns rights to acquire controlling interests in 20 additional personal communications service licenses, primarily through an acquisition agreement with AT&T Wireless Services, Inc. (AT&T Wireless), now a subsidiary of Cingular Wireless LLC (Cingular). In a separate agreement, U.S. Cellular agreed to purchase a controlling interest in one license from Cingular which will be completed during the first half of 2005.

At December 31, 2004, U.S. Cellular is a limited partner in Carroll Wireless, L.P. (Carroll Wireless). U.S. Cellular consolidates Carroll Wireless for financial reporting purposes because it is deemed to have a controlling financial interest in Carroll Wireless. Carroll Wireless participated in FCC wireless spectrum Auction 58, in which eligible participants bid on designated personal communication service spectrum licenses. Carroll Wireless did not own any interests in wireless licenses or any other significant assets as of December 31, 2004. As a result of Auction 58, which ended February 15, 2005, Carroll Wireless was a successful bidder for 17 personal communication service licenses in 11 states for a cost of \$129.9 million. See Wireless Systems Development Auction 58 for further discussion of U.S. Cellular and Carroll Wireless obligations pursuant to Auction 58.

U.S. Cellular manages the operations of all but two of the licenses in which it owns a controlling interest; U.S. Cellular has contracted with another wireless operator to manage the operations of the other two licenses. U.S. Cellular includes the operations of each of these two licenses in its consolidated operating revenues and expenses. U.S. Cellular also manages the operations of three additional licenses in which it does not own a controlling interest, through an agreement with the controlling interest holder or holders. U.S. Cellular accounts for its interests in each of these three licenses using the equity method.

The following table summarizes the status of U.S. Cellular's interests in wireless markets at December 31, 2004. Personal communications service markets are designated as PCS.

| | Total | Cellular | PCS |
|---|-------|----------|-----|
| Consolidated markets (1) | 175 | 126 | 49 |
| Consolidated markets to be acquired pursuant to existing agreements (2) | 21 | 1 | 20 |
| Minority interests accounted for using equity method (3) | 19 | 19 | |
| Minority interests accounted for using cost method (4) | 5 | 5 | |

| | | | |
|--|-----|-----|----|
| Total markets to be owned after completion of pending transactions | 220 | 151 | 69 |
|--|-----|-----|----|

(1) U.S. Cellular owns a controlling interest in each of the 126 cellular markets and 49 personal communications service markets it included in its consolidated markets at December 31, 2004.

(2) U.S. Cellular owns rights to acquire controlling interests in 20 additional personal communications service licenses, through an acquisition agreement with AT&T Wireless which was closed in August 2003. U.S. Cellular has up to five years from the transaction closing date to exercise its rights to acquire the licenses. In a separate agreement, U.S. Cellular agreed to purchase a controlling interest in one cellular license from Cingular.

(3) Represents cellular licenses in which U.S. Cellular owns an interest that is not a controlling financial interest and which are accounted for using the equity method. U.S. Cellular's investments in these licenses are included in investment in unconsolidated entities in its Balance Sheet and its proportionate share of the net income of these licenses is included in investment income in its Statement of Operations.

(4) Represents cellular licenses in which U.S. Cellular owns an interest that is not a controlling financial interest and which are accounted for using the cost method. U.S. Cellular's investments in these licenses are included in investment in unconsolidated entities in its Balance Sheet.

Some of the territory covered by the personal communications service licenses U.S. Cellular operates overlaps with territory covered by the cellular licenses it operates. For the purpose of tracking population counts in order to calculate market penetration, when U.S. Cellular acquires a licensed area that overlaps a licensed area it already owns, it does not duplicate the population counts for any overlapping licensed area. Only non-overlapping, incremental population counts are added to the reported amount of total population in the case of an acquisition of a licensed area that overlaps a previously owned licensed area. The incremental population counts that are added in such event are referred to throughout this Form 10-K/A as incremental population measurements. Amounts reported in this Form 10-K/A as total market population do not duplicate any population counts in the case of any overlapping licensed areas U.S. Cellular owns.

U.S. Cellular owns interests in consolidated wireless licenses which cover a total population of 44.4 million as of December 31, 2004. U.S. Cellular also owns investment interests in wireless licenses which represent 1.7 million population equivalents as of that date. Population equivalents represent the population of a wireless licensed area, based on 2003 Claritas estimates, multiplied by the percentage interest that U.S. Cellular owns in an entity licensed to operate such wireless license.

U.S. Cellular believes that it is the seventh largest wireless company in the United States at December 31, 2004, based on internally prepared calculations of the aggregate number of customers in its consolidated markets compared to the number of customers disclosed by other wireless companies in their publicly released information. U.S. Cellular's business development strategy is to operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular anticipates that grouping its operations into market areas will continue to provide it with certain economies in its capital and operating costs. In recent years, U.S. Cellular's focus has broadened to include exchanges and divestitures of consolidated and investment interests which are considered less essential to its operating strategy.

Wireless systems in U.S. Cellular's consolidated markets served 4,945,000 customers at December 31, 2004, and contained 4,856 cell sites. The average penetration rate in U.S. Cellular's consolidated markets, as calculated by dividing the number of U.S. Cellular customers by the total population in such markets was 11.14% at December 31, 2004, and the number of customers who discontinued service (the churn rate) in these markets averaged 1.66% per month for the twelve months ended December 31, 2004.

Wireless Telephone Operations

The Wireless Telephone Industry. Wireless telephone technology provides high-quality, high-capacity communications services to hand-held portable and in-vehicle wireless telephones. Wireless telephone systems are designed for

maximum mobility of the customer. Access is provided through system interconnections to local, regional, national and world-wide telecommunications networks. Wireless telephone systems also offer a full range of services, similar to those offered by conventional (landline) telephone services. Data transmission capabilities offered by wireless telephone systems may be at slower speeds than those offered by landline telephone or other data service providers.

Wireless telephone systems divide each service area into smaller geographic areas or cells. Each cell is served by radio transmitters and receivers which operate on discrete radio frequencies licensed by the FCC. All of the cells in a system are connected to a computer-controlled mobile telephone switching office. Each mobile telephone switching office is connected to the landline telephone network and potentially other mobile telephone switching offices. Each conversation on a wireless phone involves a transmission over a specific set of radio frequencies from the wireless phone to a transmitter/receiver at a cell site. The transmission is forwarded from the cell site to the mobile telephone switching office and from there may be forwarded to the landline telephone network or to another wireless phone to complete the call. As the wireless telephone moves from one cell to another, the mobile telephone switching office determines radio signal strength and transfers (hands off) the call from one cell to the next. This hand-off is not noticeable to either party on the phone call.

The FCC currently grants two licenses to provide cellular telephone service in each cellular licensed area. Multiple licenses have been granted in each personal communications service licensed area, and these licensed areas overlap with cellular licensed areas. As a result, personal communications service license holders can and do compete with cellular license holders for customers. In addition, specialized mobile radio systems operators such as Nextel are providing wireless services similar to those offered by U.S. Cellular. Competition for customers also includes competing communications technologies, such as:

conventional landline telephone,

mobile satellite communications systems,

radio paging,

mobile virtual network operators, and

Voice Over Internet Protocol.

Personal communications service licensees have initiated service in nearly all areas of the United States, including substantially all of U.S. Cellular's licensed areas, and U.S. Cellular expects other wireless operators to continue deployment in all of U.S. Cellular's operating regions in the future. Additionally, technologies such as enhanced specialized mobile radio are competitive with wireless service in substantially all of U.S. Cellular's markets.

The services available to wireless customers and the sources of revenue available to wireless system operators are similar to those provided by landline telephone companies. Customers may be charged a separate fee for system access, airtime, long-distance calls and ancillary services. Wireless system operators also provide service to customers of other operators' wireless systems while the customers are temporarily located within the operators' service areas.

Customers using service away from their home system are called roamers. Roaming is available because technical standards require that analog wireless telephones be compatible in all market areas in the United States. Additionally, because U.S. Cellular has deployed digital radio technologies in substantially all of its service areas, its customers with digital, dual-mode (both analog and digital capabilities) or tri-mode (analog plus digital capabilities at both the cellular and personal communications service radio frequencies) wireless telephones can roam in other companies' service areas which have a compatible digital technology in place. Likewise, U.S. Cellular can provide roaming service to other companies' customers who have compatible digital wireless telephones. In all cases, the system that provides the service to roamers will generate usage revenue, at rates that have been negotiated between the serving carrier and the customer's carrier.

There have been a number of technical developments in the wireless industry since its inception. Currently, while substantially all companies mobile telephone switching offices process information digitally, on certain cellular systems the radio transmission uses analog technology. All personal communications service systems utilize digital radio transmission. Several years ago, certain digital transmission techniques were approved for implementation by the wireless industry in the United States. Time Division Multiple Access (TDMA) technology was selected as one industry standard by the wireless industry and has been deployed by many wireless operators, including U.S. Cellular 's operations in a substantial portion of its markets. Another digital technology, Code Division Multiple Access (CDMA), was also deployed by U.S. Cellular in its remaining markets.

In late 2001, U.S. Cellular announced its plans to migrate to a single digital technology, CDMA, for its customers in all of its markets. U.S. Cellular believes that a single digital technology platform represents the best network strategy to foster its future growth. In 2002, U.S. Cellular began its plans to deploy CDMA 1XRTT technology, which improves capacity and allows for higher speed data transmission than basic CDMA, throughout all of its markets, over a three-year period ending in 2004. As of December 31, 2004, U.S. Cellular had deployed CDMA 1XRTT technology in substantially all of its licensed areas, including areas where it had previously deployed TDMA technology, as part of its technology conversion plans. Migration of U.S. Cellular 's customers to CDMA handsets in all of its markets is expected to take a few additional years.

U.S. Cellular believes CDMA technology is the best digital radio technology choice for its operations for the following reasons:

TDMA technology may not be supported by manufacturers of future generations of wireless products due to limitations on the services it enables wireless companies to provide.

CDMA technology has a lower long-term cost in relation to the spectrum efficiency it provides compared to similar costs of other technologies.

CDMA technology provides improved coverage at most cell sites compared to other technologies.

CDMA technology provides a more efficient evolution to a wireless network with higher data speeds, which will enable U.S. Cellular to provide enhanced data services.

The main disadvantage of U.S. Cellular's conversion to CDMA technology is that it is generally not used outside of the United States. A third digital technology, Global System for Mobile Communication (GSM), is the standard technology in Europe and most other areas outside the United States. GSM technology, which is used by certain wireless companies in the United States, has certain advantages over CDMA in that GSM phones can be used more widely outside of the United States and GSM has a larger installed worldwide customer base. Also, TDMA technology is used in many parts of the United States and in other countries as well. Since CDMA technology is not compatible with GSM or TDMA technology, U.S. Cellular customers with CDMA-based handsets may not be able to use all of their handset features when traveling through GSM- and TDMA-based networks. Through roaming agreements with other CDMA-based wireless carriers, U.S. Cellular's customers may access CDMA service in virtually all areas of the United States.

U.S. Cellular will continue to retain TDMA technology for the next several years in markets in which such technology is in use today. This will enable U.S. Cellular to provide TDMA-based service to its customers who still choose to use TDMA-based handsets and to roamers from other wireless providers who have TDMA-based networks. Also, since the TDMA equipment has analog capabilities embedded, U.S. Cellular will maintain the TDMA network in order to be able to meet the FCC mandate of retaining analog capability through 2008.

U.S. Cellular continually reviews its long-term technology plans. In 2005, U.S. Cellular expects to introduce a limited trial of Evolution Data Optimized (EV-DO) technology. This technology, which increases the speed of data transmissions on the wireless network, is being deployed by certain other wireless companies. A revision to the current EV-DO standard is expected to be commercially available in 2006. U.S. Cellular will evaluate any planned investment in EV-DO technology in light of the revenue opportunities afforded by the deployment of such technology.

U.S. Cellular's Operations. Management anticipates that U.S. Cellular will experience increases in wireless units in service and revenues in 2005 through internal growth and through the launch of new markets as the licenses acquired in 2001, 2002 and 2003 are developed and become integrated into its operations.

Expenses associated with customer and revenue growth may reduce the amount of cash flows from operating activities and operating income during 2005. In addition, U.S. Cellular anticipates that the seasonality of revenue streams and operating expenses may cause U.S. Cellular's cash flows from operating activities and operating income to vary from quarter to quarter.

Changes in any of several factors may reduce U.S. Cellular's growth in operating income and net income over the next few years. These factors include but are not limited to:

the growth rate in U.S. Cellular's customer base;

the usage and pricing of wireless services;

the cost of providing wireless services, including the cost of attracting and retaining customers;

the cost to begin or integrate operations of newly acquired licensed areas;

the churn rate;

continued capital expenditures, which are necessary to improve the quality of U.S. Cellular's network and to expand its operations into new markets;

continued competition from other wireless licensees and other telecommunication technologies;

continued consolidation in the wireless industry;

the growth rate in the use of U.S. Cellular's **easyedge**™ brand of enhanced data services and products;

continued declines in inbound roaming revenue; and

continuing technological advances which may provide wireless products/services and additional competitive alternatives to wireless service.

U.S. Cellular is building a substantial presence in selected geographic areas throughout the United States where it can efficiently integrate and manage wireless telephone systems. Its wireless interests included six market areas as of December 31, 2004. See U.S. Cellular's Wireless Interests.

Wireless Systems Development

Acquisitions, Divestitures and Exchanges. U.S. Cellular assesses its wireless holdings on an ongoing basis in order to maximize the benefits derived from its operating markets. U.S. Cellular also reviews attractive opportunities for the acquisition of additional wireless spectrum. As part of this strategy, U.S. Cellular may from time-to-time be engaged in negotiations relating to the acquisition of companies, strategic properties or wireless spectrum. U.S. Cellular may plan to participate as a bidder, or member of a bidding group, in auctions administered by the FCC. See Auction 58 for a discussion of the auction completed in early 2005. Recently, U.S. Cellular has been disposing of those markets that are not strategic to its long-term success and redeploying capital to more strategically important parts of the business. As part of this strategy, U.S. Cellular may from time-to-time be engaged in negotiations relating to the disposition of other non-strategic properties.

U.S. Cellular may continue to make opportunistic acquisitions or exchanges in markets that further strengthen its operating market areas and in other attractive markets. U.S. Cellular also seeks to acquire minority interests in licenses where it already owns the majority interest and/or operates the license. There can be no assurance that U.S. Cellular will be able to negotiate additional acquisitions or exchanges on terms acceptable to it or that regulatory approvals, where required, will be received. U.S. Cellular plans to retain minority interests in certain wireless licenses which it believes will earn a favorable return on investment. Other minority interests may be exchanged for interests in licenses which enhance U.S. Cellular's operations or may be sold for cash or other consideration. U.S. Cellular also continues to evaluate the disposition of certain controlling interests in wireless licenses which are not essential to its corporate development strategy.

Auction 58. U.S. Cellular is a limited partner in Carroll Wireless, an entity which participated in the auction of wireless spectrum designated by the FCC as Auction 58. Carroll Wireless was qualified to bid on spectrum which was available only to companies that fall under the FCC definition of designated entities, which are small businesses that have a limited amount of assets. Carroll Wireless was a successful bidder for 17 licensed areas in Auction 58, which ended on February 15, 2005. These 17 licensed areas cover portions of 11 states and are in markets which are either adjacent to or overlap current U.S. Cellular licensed areas.

On March 4, 2005, Carroll Wireless increased the amount on deposit with the FCC to approximately \$26 million, from \$9 million initially deposited, and filed an application with the FCC seeking a grant of the subject licenses. The aggregate amount due to the FCC for the 17 licenses is \$129.9 million, net of all bidding credits to which Carroll Wireless is entitled as a designated entity. U.S. Cellular consolidates Carroll Wireless for financial reporting purposes, pursuant to the guidelines of Financial Accounting Standards Board Interpretation No. 46R, as U.S. Cellular anticipates absorbing a majority of Carroll Wireless expected gains or losses.

Carroll Wireless is in the process of developing its long-term business and financing plans. As of March 4, 2005, U.S. Cellular has made capital contributions and advances to Carroll Wireless and/or its general partner of approximately \$26 million. Pending finalization of Carroll Wireless permanent financing plan, and upon request by Carroll Wireless, U.S. Cellular may make capital contributions and advances to Carroll Wireless and/or its general partner of up to \$130 million to fund the payments to the FCC and additional working capital.

Sales of Wireless Interests. On December 20, 2004, U.S. Cellular completed the sale of its controlling interest in one personal communications service license to MetroPCS California/Florida, Inc. (MetroPCS) for \$8.5 million.

On November 30, 2004, U.S. Cellular completed the sales of two consolidated markets and five minority interests to ALLTEL Communications Inc. (ALLTEL) for \$80.2 million in cash, subject to a working capital adjustment. U.S. Cellular recorded a pretax gain of \$38.0 million related to this transaction at the time of its completion, representing the excess of the cash received over the net book value of the assets and liabilities sold, subject to a working capital adjustment. The portion of the gain related to the two consolidated markets included in operations of \$10.1 million, was recorded in (gain) loss on assets held for sale in the Statement of Operations. The remaining portion of the gains of \$27.9 million was recorded in gain (loss) on investments included within investment and other income (expense) on the Statement of Operations.

On February 18, 2004, U.S. Cellular completed the sale of certain of its wireless properties in southern Texas to AT&T Wireless for \$96.5 million in cash, including a working capital adjustment. The U.S. Cellular properties sold included wireless assets and customers in six markets. An aggregate loss of \$21.3 million (including a \$22.0 million estimate of the loss on assets of operations held for sale in the fourth quarter of 2003 and a \$0.7 million reduction of the loss in 2004) was recorded as a loss on assets of operations held for sale (included in operating expenses), representing the difference between the carrying value of the markets sold to AT&T Wireless and the cash received in the transaction.

Pending Acquisition of Market. On November 30, 2004, U.S. Cellular entered into a definitive agreement with Cingular to acquire a controlling interest in one cellular license. U.S. Cellular anticipates that this transaction will be completed during the first half of 2005.

License Rights Related to Exchange of Markets with AT&T Wireless. Pursuant to a transaction with AT&T Wireless which was completed on August 1, 2003, U.S. Cellular acquired rights to 21 licenses that have not yet been assigned to U.S. Cellular. These licenses, with a recorded value of \$42.0 million, are accounted for in license rights on the consolidated Balance Sheet. All asset values related to the properties acquired or pending, including license values, were determined by U.S. Cellular.

Wireless Interests and Operating Market Areas

U.S. Cellular operates its adjacent wireless systems under an organization structure in which it groups its markets into geographic market areas to offer customers large local service areas which primarily utilize U.S. Cellular's network. Customers may make outgoing calls and receive incoming calls within each market area without special roaming arrangements. In addition to benefits to customers, its operating strategy also has provided to U.S. Cellular certain economies in its capital and operating costs. These economies are made possible through the reduction of outbound roaming costs and increased sharing of facilities, personnel and other costs, enabling U.S. Cellular to minimize its per customer cost of service. The extent to which U.S. Cellular benefits from these revenue enhancements and economies of operation is dependent on market conditions, population size of each market area and network engineering considerations.

The following section details U.S. Cellular's wireless interests, including those it owned or had the right to acquire as of December 31, 2004. The table presented therein lists the markets that U.S. Cellular manages or has the right to manage, grouped according to operating market area. The operating market areas represent areas in which U.S. Cellular is currently focusing its development efforts. These market areas have been devised with a long-term goal of allowing delivery of wireless service to areas of economic interest and areas of economic activity.

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The table aggregates the total population of the consolidated licenses within each operating market area, regardless of U.S. Cellular's percentage ownership in the licenses included in such operating market areas. Those markets in which U.S. Cellular owns less than 100% of the license show U.S. Cellular's ownership percentage; in all others, U.S. Cellular owns 100% of the license. For licenses in which U.S. Cellular owns an investment interest, the related population equivalents are shown, defined as the total population of each licensed area multiplied by U.S. Cellular's ownership interest in each such license.

The total population and population equivalents measures are provided to enable comparison of the relative size of each operating market area to U.S. Cellular's consolidated operations and to enable comparison of the relative size of U.S. Cellular's consolidated markets to its investment interests, respectively. The total population of U.S. Cellular's consolidated markets may have no direct relationship to the number of wireless customers or the revenues that may be realized from the operation of the related wireless systems.

U.S. CELLULAR S WIRELESS INTERESTS

The table below sets forth certain information with respect to the interests in wireless markets which U.S. Cellular owned or had the right to acquire pursuant to definitive agreements as of December 31, 2004.

Some of the territory covered by the personal communications service licenses U.S. Cellular owns overlaps with territory covered by the cellular licenses it owns. For the purpose of tracking amounts in the 2003 Total Population column in the table below, when U.S. Cellular acquires or agrees to acquire a licensed area that overlaps a licensed area it already owns, it does not duplicate the total population for any overlapping licensed area. Only non-overlapping, incremental population amounts are added to the amounts in the 2003 Total Population column in the table below, in the case of an acquisition of a licensed area that overlaps a previously owned licensed area.

| Market Area/Market | Current or Future Percentage Interest (if less than 100%) (1) | 2003 Total Population (2) |
|--|---|---------------------------|
| <i>Markets Currently Consolidated or Which Are Expected To Be Consolidated</i> | | |
| MIDWEST MARKET AREA: | | |
| Chicago Major Trading Area/Michigan | | |
| Chicago, IL-IN-MI-OH 20MHz B Block MTA # (3) (4) | | |
| Kalamazoo, MI 20MHz A Block # (5) | | |
| Battle Creek, MI 20MHz A Block # (5) | | |
| Jackson, MI 10MHz A Block # (5) | | |
| Total Chicago Major Trading Area/Michigan | | 13,012,000 |
| Illinois/Indiana | | |
| Indianapolis, IN 10MHz F Block # (5) | | |
| Peoria, IL | | |
| Jo Daviess (IL 1) | | |
| Rockford, IL | | |
| Bloomington-Bedford, IN 10MHz B Block # (5) | | |
| Terre Haute, IN-IL 20MHz B Block # | | |
| Adams (IL 4) * | | |
| Carbondale-Marion, IL 10MHz A Block/10MHz D Block # (5) | | |
| Mercer (IL 3) | | |
| Miami (IN 4) * | 85.71% | |
| Anderson, IN 10MHz B Block # (5) | | |
| Muncie, IN 10MHz B Block # (5) | | |
| Lafayette, IN 10MHz B Block # | | |
| Columbus, IN 10MHz B Block # (5) | | |
| Warren (IN 5) * | 33.33% | |
| Mount Vernon-Centralia, IL 10MHz A Block # | | |
| Kokomo-Logansport, IN 10MHz B Block # | | |
| Richmond, IN 10MHz B Block # (5) | | |
| Vincennes-Washington, IN-IL 10MHz B Block # (5) | | |
| Marion, IN 10MHz B Block # | | |
| Alton, IL * | | |
| Rockford, IL 10MHz E Block # | | |

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| | | | | |
|---|--|--|--|--|
| Peoria, IL 10MHz C Block # | | | | |
| Peoria, IL 10MHz E Block # | | | | |
| Springfield, IL 10MHz E Block/10MHz F Block # | | | | |
| Decatur-Effingham, IL 10MHz E Block/10MHz F Block # | | | | |
| Bloomington, IL 10MHz E Block/10MHz F Block # | | | | |
| Champaign-Urbana, IL 10MHz E Block/F Block # | | | | |
| LaSalle-Peru-Ottawa-Streator, IL 10MHz C Block # | | | | |