

TELEPHONE & DATA SYSTEMS INC /DE/  
Form ARS  
April 10, 2019

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)







Table of Contents

**TELEPHONE AND DATA SYSTEMS, INC.**

**ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2018**

**Pursuant to SEC Rule 14a-3**

The following audited financial statements and certain other financial information for the year ended December 31, 2018, represent Telephone and Data Systems' annual report to shareholders as required by the rules and regulations of the Security and Exchange Commission (SEC).

The following information was filed with the SEC on February 22, 2019, as Exhibit 13 to Telephone and Data Systems' Annual Report on Form 10-K for the year ended December 31, 2018. Such information has not been updated or revised since the date it was originally filed with the SEC. Accordingly, you are encouraged to review such information together with any subsequent information that we have filed with the SEC and other publicly available information.

---

Table of Contents

Telephone and Data Systems, Inc.  
Financial Reports Contents

Exhibit 13

	<b>Page No.</b>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	1
<u>Executive Overview</u>	1
<u>Terms used by TDS</u>	4
<u>Results of Operations – TDS Consolidated</u>	6
<u>U.S. Cellular Operations</u>	9
<u>TDS Telecom Operations</u>	16
<u>Wireline Operations</u>	20
<u>Cable Operations</u>	23
<u>Liquidity and Capital Resources</u>	26
<u>Contractual and Other Obligations</u>	32
<u>Consolidated Cash Flow Analysis</u>	33
<u>Consolidated Balance Sheet Analysis</u>	34
<u>Applications of Critical Accounting Policies and Estimates</u>	34
<u>Other Items</u>	37
<u>Regulatory Matters</u>	37
<u>Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement</u>	40
<u>Market Risk</u>	43
<u>Supplemental Information Relating to Non-GAAP Financial Measures</u>	45
<u>Financial Statements</u>	50
<u>Consolidated Statement of Operations</u>	50
<u>Consolidated Statement of Comprehensive Income</u>	51
<u>Consolidated Statement of Cash Flows</u>	52
<u>Consolidated Balance Sheet – Assets</u>	53

Edgar Filing: TELEPHONE & DATA SYSTEMS INC /DE/ - Form ARS

<u>Consolidated Balance Sheet - Liabilities and Equity</u>	<u>54</u>
<u>Consolidated Statement of Changes in Equity</u>	<u>55</u>
<u>Notes to Consolidated Financial Statements</u>	<u>58</u>
<u>Reports of Management</u>	<u>100</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>102</u>
<u>Selected Consolidated Financial Data</u>	<u>104</u>
<u>Consolidated Quarterly Information (Unaudited)</u>	<u>105</u>
<u>Shareholder Information</u>	<u>106</u>

---

Table of Contents

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**EXECUTIVE OVERVIEW**

The following Management's Discussion and Analysis (MD&A) should be read in conjunction with the audited consolidated financial statements and notes of Telephone and Data Systems, Inc. (TDS) for the year ended December 31, 2018, and with the description of TDS' business included herein. Certain numbers included herein are rounded to millions for ease of presentation; however, certain calculated amounts and percentages are determined using the unrounded numbers.

This report contains statements that are not based on historical facts, including the words "believes," "anticipates," "estimates," "expects," "plans," "intends," "projects" and similar expressions. These statements constitute and represent "forward looking statements" as this term is defined in the Private Securities Litigation Reform Act of 1995. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward looking statements. See Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement for additional information.

TDS uses certain "non-GAAP financial measures" and each such measure is identified in the MD&A. A discussion of the reason TDS determines these metrics to be useful and a reconciliation of these measures to their most directly comparable measures determined in accordance with accounting principles generally accepted in the United States of America (GAAP) are included in the Supplemental Information Relating to Non-GAAP Financial Measures section within the MD&A of this Form 10-K Report.

**General**

TDS is a diversified telecommunications company that provides high-quality communications services to approximately 6 million connections nationwide. TDS provides wireless services through its 82%-owned subsidiary, United States Cellular Corporation (U.S. Cellular). TDS also provides wireline and cable services, through its wholly-owned subsidiary, TDS Telecommunications LLC (TDS Telecom). TDS' segments operate almost entirely in the United States. See Note 18 Business Segment Information in the Notes to Consolidated Financial Statements for additional information about TDS' segments.

TDS re-evaluated internal reporting roles with regard to its hosted and managed services (HMS) business unit and, as a result, changed its reportable segments. Effective January 1, 2018, HMS was considered a non-reportable segment and is no longer being reported under TDS Telecom. Prior periods have been recast to conform to this revised presentation.

**2018 Operating Revenues by Segment**





Table of Contents

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### **TDS Mission and Strategy**

TDS' mission is to provide outstanding communications services to its customers and meet the needs of its shareholders, its people, and its communities. In pursuing this mission, TDS seeks to grow its businesses, create opportunities for its associates and employees, and build value over the long-term for its shareholders. Across all of its businesses, TDS is focused on providing exceptional customer experiences through best-in-class services and products and superior customer service.

TDS' long-term strategy calls for the majority of its capital to be reinvested in its operating businesses to strengthen their competitive positions and financial performance, while also returning value to TDS shareholders through the payment of a regular quarterly cash dividend and share repurchases.

Throughout 2018, TDS continued to focus on investing in the networks that are the backbone of its commitment to provide outstanding communications services to its customers. TDS believes these investments strengthen its competitive position and improve operating performance. Looking ahead to 2019, TDS will continue to execute on its strategies to build strong, competitive businesses providing high-quality, data-focused services and products.

### **Invest in the business to improve returns and pursue initiatives that align with long-term strategies**

Consistent with its strategy, TDS made significant investments in 2018 to improve the performance of its networks. U.S. Cellular added capacity to its 4G LTE network responding to customers' growing use of data. U.S. Cellular enhanced its service and product offerings by commercially deploying VoLTE technology in California, Iowa, Oregon, Washington and Wisconsin and deployments in several additional operating markets will occur in 2019. VoLTE technology allows customers to utilize a 4G LTE network for both voice and data services, and offers enhanced services such as high definition voice and simultaneous voice and data sessions. In addition, the deployment of VoLTE technology expands U.S. Cellular's ability to offer roaming services to other wireless carriers.

U.S. Cellular continues to engage in efforts related to the development of 5G standards and identifying potential use cases for 5G technology. When deployed commercially, 5G technology is expected to help address customers' growing demand for data services and create opportunities for new services requiring high speed and reliability as well as low latency. In the fourth quarter of 2018, U.S. Cellular began conducting a trial utilizing 5G standards and equipment on its core LTE network.

TDS Telecom's Wireline business continues to focus on driving growth in its broadband and video services by investing in fiber inside existing markets and in new out-of-territory markets. With support from the FCC's A-CAM program, Wireline will deploy higher speed broadband services to more rural areas. TDS Telecom's Cable business continues to increase its broadband penetration by making network capacity investments and by offering more advanced services in its markets. TDS Telecom's Wireline and Cable businesses also are investing in a next generation video platform called TDS TV+ to enhance video services.

### **Return value to shareholders**

During 2018, TDS paid \$72 million in regular quarterly cash dividends. TDS increased the dividend per share paid to its investors by 3% in 2018 which marks the 44<sup>th</sup> consecutive year of dividend increases and in February 2019, TDS increased its quarterly dividend per share from \$0.16 to \$0.165. There were no TDS or U.S. Cellular share repurchases in 2018. As of December 31, 2018, \$199 million was available for share repurchase under the announced TDS stock repurchase program. There is no assurance that TDS will continue to increase the dividend rate or pay dividends and no assurance that TDS or U.S. Cellular will make any significant amount of share repurchases in the future.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Annual Dividends Per TDS Share

**Significant Financial and Operating Matters**

The following is a summary of certain selected information contained in the comprehensive MD&A that follows. The overview does not contain all of the information that may be important. You should carefully read the entire MD&A and not rely solely on the highlights.

§  
Net income available to TDS common shareholders was \$135 million in 2018, compared to \$153 million in 2017. Diluted earnings per share was \$1.17 in 2018 compared to \$1.37 a year ago.

§  
Total additions to Property, plant and equipment were \$767 million including expenditures to enhance and maintain TDS' wireless network coverage, invest in information technology to support existing and new services and products, maintain and enhance existing infrastructure including build-out requirements to meet state broadband and A-CAM programs, build a TDS TV+ platform, and expand fiber deployment.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
TERMS USED BY TDS

The following is a list of definitions of certain industry terms that are used throughout this document:

- § **4G LTE** fourth generation Long-Term Evolution, which is a wireless technology that enables more network capacity for more data per user as well as faster access to data compared to third generation (3G) technology.
- § **5G** fifth generation wireless technology that is expected to help address customers' growing demand for data services as well as create opportunities for new services requiring high speed and reliability as well as low latency.
- § **Account** represents an individual or business financially responsible for one or multiple associated connections. An account may include a variety of types of connections such as handsets and connected devices.
- § **Alternative Connect America Cost Model (A-CAM)** a USF support mechanism for rate-of-return carriers, which provides revenue support annually for ten years beginning in 2017. This support comes with an obligation to build defined broadband speeds to a certain number of locations.
- § **ASU 2014-09** the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, including any subsequent modifications to such guidance. This ASU replaces existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers.
- § **Auctions 101 and 102** Auction 101 is an FCC auction of 28 GHz spectrum licenses that started in November 2018 and concluded in January 2019. Auction 102 is an FCC auction of 24 GHz spectrum licenses that is expected to start in early 2019. The spectrum auctioned in each of these auctions, referred to as Millimeter Wave spectrum, is expected to be used primarily to deliver 5G technology.
- § **Auctions 1000, 1001, and 1002** Auction 1000 is an FCC auction of 600 MHz spectrum licenses that started in 2016 and concluded in 2017 involving: (1) a "reverse auction" in which broadcast television licensees submitted bids to voluntarily relinquish spectrum usage rights in exchange for payments (referred to as Auction 1001); (2) a "repacking" of the broadcast television bands in order to free up certain broadcast spectrum for other uses; and (3) a "forward auction" of licenses for spectrum cleared through this process to be used for wireless communications (referred to as Auction 1002).
- § **Broadband Connections** refers to the number of Wireline customers provided high-capacity data circuits via various technologies, including DSL and dedicated internet circuit technologies or the Cable billable number of lines into a building for high-speed data services.
- § **Churn Rate** represents the percentage of the connections that disconnect service each month. These rates represent the average monthly churn rate for each respective period.
- §

## Edgar Filing: TELEPHONE & DATA SYSTEMS INC /DE/ - Form ARS

**Connected Devices** non-handset devices that connect directly to the U.S. Cellular network. Connected devices include products such as tablets, wearables, modems, and hotspots.

§

**DOCSIS** Data Over Cable Service Interface Specification is an international telecommunications standard that permits the addition of high-bandwidth data transfer to an existing cable TV (CATV) system. DOCSIS 3.1 is a system specification that increases data transmission rates.

§

**EBITDA** refers to earnings before interest, taxes, depreciation, amortization and accretion and is used in the non-GAAP metric Adjusted EBITDA throughout this document. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.

§

**Eligible Telecommunications Carrier (ETC)** designation by states for providing specified services in "high cost" areas which enables participation in universal service support mechanisms.

§

**Free Cash Flow** non-GAAP metric defined as Cash flows from operating activities less Cash paid for additions to property, plant and equipment. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.

§

**Gross Additions** represents the total number of new connections added during the period, without regard to connections that were terminated during that period.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

§  
§ **IPTV Connections** represents the number of Wireline customers provided video services using IP networking technology.

§  
§ **ManagedIP Connections** refers to the number of telephone handsets, data lines and IP trunks providing communications using IP networking technology.

§  
§ **Net Additions** represents the total number of new connections added during the period, net of connections that were terminated during that period.

§  
§ **OIBDA** refers to operating income before depreciation, amortization and accretion and is used in the non-GAAP metric Adjusted OIBDA throughout this document. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.

§  
§ **Partial Economic Areas** service areas of certain FCC licenses based on geography.

§  
§ **Postpaid Average Billings per Account (Postpaid ABPA)** non-GAAP metric which is calculated by dividing total postpaid service revenues plus equipment installment plan billings by the average number of postpaid accounts and by the number of months in the period. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.

§  
§ **Postpaid Average Billings per User (Postpaid ABPU)** non-GAAP metric which is calculated by dividing total postpaid service revenues plus equipment installment plan billings by the average number of postpaid connections and by the number of months in the period. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.

§  
§ **Postpaid Average Revenue per Account (Postpaid ARPA)** metric which is calculated by dividing total postpaid service revenues by the average number of postpaid accounts and by the number of months in the period.

§  
§ **Postpaid Average Revenue per User (Postpaid ARPU)** metric which is calculated by dividing total postpaid service revenues by the average number of postpaid connections and by the number of months in the period.

§  
§ **Retail Connections** the sum of U.S. Cellular postpaid connections and U.S. Cellular prepaid connections.

§  
§ **Tax Act** refers to comprehensive federal tax legislation enacted on December 22, 2017, which made broad changes to the U.S. tax code. Now titled H.R.1, the Tax Act was originally identified as the Tax Cuts and Jobs Act of 2017.

§  
§ **Universal Service Fund (USF)** a system of telecommunications collected fees and support payments managed by the FCC intended to promote universal access to telecommunications services in the United States.

§

Edgar Filing: TELEPHONE & DATA SYSTEMS INC /DE/ - Form ARS

**U.S. Cellular Connections** individual lines of service associated with each device activated by a customer. Connections include all types of devices that connect directly to the U.S. Cellular network.

§

**Video Connections** generally, a home or business receiving video programming counts as one video connection. In counting bulk residential or commercial connections, such as an apartment building or a hotel, connections are counted based on the number of units/rooms within the building receiving service.

§

**Voice Connections** refers to the individual circuits connecting a customer to Wireline's central office facilities or the Cable billable number of lines into a building for voice services.

§

**VoLTE** Voice over Long-Term Evolution is a technology specification that defines the standards and procedures for delivering voice communications and related services over 4G LTE networks.

§

**Wireline Residential Revenue per Connection** is calculated by dividing total Wireline residential revenue by the average number of Wireline residential connections and by the number of months in the period.

Table of Contents

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## RESULTS OF OPERATIONS TDS CONSOLIDATED

Year Ended December 31,	2018 <sup>1</sup>	2017	2016	2018 vs. 2017	2017 vs. 2016
(Dollars in millions)					
<b>Operating revenues</b>					
U.S. Cellular	\$ 3,967	\$ 3,890	\$ 3,990	2%	(3)%
TDS Telecom	927	919	882	1%	4%
All other <sup>2</sup>	215	235	283	(9)%	(17)%
Total operating revenues	5,109	5,044	5,155	1%	(2)%
<b>Operating expenses</b>					
U.S. Cellular	3,809				