

TELEPHONE & DATA SYSTEMS INC /DE/
 Form 10-Q
 August 01, 2014

UNITED STATES															
SECURITIES AND EXCHANGE COMMISSION															
Washington, D.C. 20549															
FORM 10-Q															
(Mark One)															
<input checked="" type="checkbox"/>	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934														
For the quarterly period ended June 30, 2014															
OR															
	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934														
For the transition period from _____ to _____															
Commission file number 001-14157															
TELEPHONE AND DATA SYSTEMS, INC.															
(Exact name of Registrant as specified in its charter)															
Delaware								36-2669023							
(State or other jurisdiction of incorporation or organization)								(IRS Employer Identification No.)							
<u>30 North LaSalle Street, Suite 4000, Chicago, Illinois 60602</u>															
(Address of principal executive offices) (Zip code)															
Registrant's telephone number, including area code: (312) 630-1900															
Indicate by check mark														Yes	No
• 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.														x	

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	Interest and dividend income		2,751		2,600		5,237		4,178
	Gain (loss) on investments		-		14,518		-		14,518
	Interest expense		(27,898)		(23,749)		(56,605)		(48,247)
	Other, net		50		(197)		210		(351)
	Total investment and other income		9,693		28,777		20,959		32,792
	Income (loss) before income taxes		(39,397)		311,004		(7,446)		322,173
	Income tax expense (benefit)		(13,671)		132,607		(2,014)		136,787
	Net income (loss)		(25,726)		178,397		(5,432)		185,386
	Less: Net income (loss) attributable to noncontrolling interests, net of tax		(3,688)		22,320		(1,648)		27,890
	Net income (loss) attributable to TDS shareholders		(22,038)		156,077		(3,784)		157,496
	TDS Preferred dividend requirement		(12)		(12)		(25)		(25)
	Net income (loss) available to common shareholders	\$	(22,050)	\$	156,065	\$	(3,809)	\$	157,471
	Basic weighted average shares outstanding		108,719		108,385		108,853		108,320
	Basic earnings (loss) per share attributable to TDS shareholders	\$	(0.20)	\$	1.44	\$	(0.04)	\$	1.45
	Diluted weighted average shares outstanding		108,719		108,913		108,853		108,827
	Diluted earnings (loss) per share attributable to TDS shareholders	\$	(0.20)	\$	1.42	\$	(0.04)	\$	1.44
	Dividends per share to TDS shareholders	\$	0.1340	\$	0.1275	\$	0.2680	\$	0.2550
The accompanying notes are an integral part of these consolidated financial statements.									

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Telephone and Data Systems, Inc.												
<u>Consolidated Statement of Comprehensive Income</u>												
(Unaudited)												
					Three Months Ended			Six Months Ended				
					June 30,			June 30,				
(Dollars in thousands)					2014		2013		2014		2013	
Net income (loss)					\$	(25,726)	\$	178,397	\$	(5,432)	\$	185,386
Net change in accumulated other comprehensive income (loss)												
Change in net unrealized gain (loss) on equity investments					341		51		341		51	
Change in foreign currency translation adjustment					(17)		-		(21)		15	
Change related to retirement plan												
Amounts included in net periodic benefit cost for the period												
Amortization of prior service cost					(911)		(902)		(1,822)		(1,804)	
Amortization of unrecognized net loss					322		602		644		1,204	
					(589)		(300)		(1,178)		(600)	
Change in deferred income taxes					224		114		447		228	
Change related to retirement plan, net of tax					(365)		(186)		(731)		(372)	
Net change in accumulated other comprehensive income (loss)					(41)		(135)		(411)		(306)	
Comprehensive income (loss)					(25,767)		178,262		(5,843)		185,080	
Less: Comprehensive income (loss) attributable to noncontrolling interest					(3,688)		22,320		(1,648)		27,890	
Comprehensive income (loss) attributable					\$	(22,079)	\$	155,942	\$	(4,195)	\$	157,190

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

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<u>Telephone and Data Systems, Inc.</u>						
<u>Consolidated Statement of Cash Flows</u>						
<u>(Unaudited)</u>						
				Six Months Ended		
				June 30,		
(Dollars in thousands)				2014		2013
Cash flows from operating activities						
	Net income (loss)			\$	(5,432)	\$ 185,386
	Add (deduct) adjustments to reconcile net income to cash flows from operating activities					
		Depreciation, amortization and accretion		429,486		496,280
		Bad debts expense		52,098		35,187
		Stock-based compensation expense		15,488		12,902
		Deferred income taxes, net		(33,346)		(21,246)
		Equity in earnings of unconsolidated entities		(72,117)		(62,694)
		Distributions from unconsolidated entities		65,569		47,635
		(Gain) loss on asset disposals, net		10,333		13,935
		(Gain) loss on sale of business and other exit costs, net		(4,289)		(296,103)
		(Gain) loss on investments		-		(14,518)
		(Gain) loss on license sales and exchanges		(91,446)		-
		Noncash interest expense		1,014		997
		Other operating activities		3		505
	Changes in assets and liabilities from operations					
		Accounts receivable		40,459		(5,781)
		Inventory		38,674		(8,105)
		Accounts payable		(43,132)		58,204
		Customer deposits and deferred revenues		13,139		7,897
		Accrued taxes		1,049		150,425
		Accrued interest		22		2,172
		Other assets and liabilities		(101,930)		(81,586)
				315,642		521,492
Cash flows from investing activities						
	Cash used for additions to property, plant and equipment			(339,907)		(384,281)
	Cash paid for acquisitions and licenses			(18,681)		(14,150)
	Cash received from divestitures			125,905		480,000
	Cash received for investments			10,000		15,000
	Other investing activities			3,720		14,127

					(218,963)			110,696
Cash flows from financing activities								
	Repayment of long-term debt				(589)			(605)
	TDS Common Shares reissued for benefit plans, net of tax payments				401			776
	U.S. Cellular Common Shares reissued for benefit plans, net of tax payments				830			(2,206)
	Repurchase of TDS Common Shares				(20,090)			-
	Repurchase of U.S. Cellular Common Shares				(8,298)			(18,425)
	Dividends paid to TDS shareholders				(29,107)			(27,598)
	U.S. Cellular dividends paid to noncontrolling public shareholders				-			(75,235)
	Distributions to noncontrolling interests				(482)			(3,292)
	Other financing activities				5,502			331
					(51,833)			(126,254)
Net increase in cash and cash equivalents					44,846			505,934
Cash and cash equivalents								
	Beginning of period				830,014			740,481
	End of period				\$ 874,860		\$	1,246,415
The accompanying notes are an integral part of these consolidated financial statements.								

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Telephone and Data Systems, Inc.				
<u>Consolidated Balance Sheet — Assets</u>				
<u>(Unaudited)</u>				
(Dollars in thousands)			June 30,	December 31,
			2014	2013
Current assets				
	Cash and cash equivalents		\$ 874,860	\$ 830,014
	Short-term investments		40,035	50,104
	Accounts receivable			
	Due from customers and agents, less allowances of \$37,543 and \$63,690, respectively		460,823	551,611
	Other, less allowances of \$2,276 and \$1,914, respectively		163,438	179,503
	Inventory, net		205,886	244,560
	Net deferred income tax asset		106,077	106,077
	Prepaid expenses		88,860	87,920
	Income taxes receivable		9,197	2,397
	Other current assets		32,274	35,151
			1,981,450	2,087,337
Assets held for sale				
			5,980	16,027
Investments				
	Licenses		1,460,484	1,423,779
	Goodwill		834,352	836,843
	Franchise rights		124,487	123,668
	Other intangible assets, net of accumulated amortization of \$122,767 and \$112,752, respectively		61,536	71,454
	Investments in unconsolidated entities		308,661	301,772
	Other investments		589	641
			2,790,109	2,758,157
Property, plant and equipment				
	In service and under construction		11,220,652	11,239,804
	Less: Accumulated depreciation		7,470,705	7,361,660
			3,749,947	3,878,144
Other assets and deferred charges				
			180,183	164,482

Total assets				\$	8,707,669		\$	8,904,147
The accompanying notes are an integral part of these consolidated financial statements.								

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Telephone and Data Systems, Inc.				
<u>Consolidated Balance Sheet — Liabilities and Equity</u>				
<u>(Unaudited)</u>				
(Dollars and shares in thousands)			June 30,	December 31,
			2014	2013
Current liabilities				
	Current portion of long-term debt		\$ 890	\$ 1,646
	Accounts payable		425,051	496,069
	Customer deposits and deferred revenues		302,496	289,445
	Accrued interest		6,671	6,673
	Accrued taxes		73,227	70,518
	Accrued compensation		98,099	115,031
	Other current liabilities		166,270	212,374
			1,072,704	1,191,756
Liabilities held for sale			722	-
Deferred liabilities and credits				
	Net deferred income tax liability		828,458	862,975
	Other deferred liabilities and credits		460,862	458,709
Long-term debt			1,718,832	1,720,074
Commitments and contingencies			-	-
Noncontrolling interests with redemption features			911	536
Equity				
	TDS shareholders' equity			
	Series A Common and Common Shares			
	Authorized 290,000 shares (25,000 Series A Common and 265,000 Common Shares)			
	Issued 132,730 shares (7,185 Series A Common and 125,545 Common Shares) and 132,711 shares (7,166 Series A Common and 125,545 Common Shares), respectively			
	Outstanding 108,217 shares (7,185 Series A Common and 101,032 Common Shares) and 108,757 shares (7,166 Series A Common and			

		101,591 Common Shares), respectively				
		Par Value (\$.01 per share) (\$72 Series A Common and \$1,255 Common Shares)		1,327		1,327
		Capital in excess of par value		2,312,515		2,308,807
		Treasury shares at cost:				
		24,513 and 23,954 Common Shares, respectively		(737,835)		(721,354)
		Accumulated other comprehensive loss		(980)		(569)
		Retained earnings		2,496,735		2,529,626
		Total TDS shareholders' equity		4,071,762		4,117,837
		Preferred shares		824		824
		Noncontrolling interests		552,594		551,436
		Total equity		4,625,180		4,670,097
		Total liabilities and equity		\$ 8,707,669		\$ 8,904,147

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

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Telephone and Data Systems, Inc.									
<u>Consolidated Statement of Changes in Equity</u>									
<u>(Unaudited)</u>									
TDS Shareholders									
	Series A Common Shares	Capital in Excess of Par Value	Treasury Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total TDS Shareholders' Equity	Preferred Shares	Non controlling Interests	Total Equity
December 31, 2013	\$ 1,327	\$ 2,308,807	\$ (721,354)	\$ (569)	\$ 2,529,626	\$ 4,117,837	\$ 824	\$ 551,436	\$ 4,670,097
Add (Deduct)									
Net income attributable to TDS shareholders	-	-	-	-	(3,784)	(3,784)	-	-	(3,784)
Net income (loss) attributable to noncontrolling interests classified as equity	-	-	-	-	-	-	-	(2,045)	(2,045)
Net unrealized gain	-	-	-	341	-	341	-	-	341

subsidiaries for repurchases, issuances and other compensation plans					
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