

TELEPHONE & DATA SYSTEMS INC /DE/  
Form 10-Q  
August 02, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2013**

**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**

(State or other jurisdiction of incorporation or organization)

**36-2669023**

(IRS Employer Identification No.)

**30 North LaSalle Street, Suite 4000, Chicago, Illinois 60602**

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (312) 630-1900

**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**

x

• 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 during

x

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the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

- whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	Non-accelerated filer	Smaller reporting company
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- whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<b>Class</b>	<b>Outstanding at June 30, 2013</b>
Common Shares, \$0.01 par value	101,140,130 Shares
Series A Common Shares, \$0.01 par value	7,148,768 Shares

**Telephone and Data Systems, Inc.**

**Quarterly Report on Form 10-Q  
For the Quarterly Period Ended June 30, 2013**

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**Part I. Financial Information****Item 1. Financial Statements****Telephone and Data Systems, Inc.****Consolidated Statement of Operations****(Unaudited)**

(Dollars and shares in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Operating revenues</b>	\$ 1,228,166	\$ 1,323,169	\$ 2,536,739	\$ 2,628,960
<b>Operating expenses</b>				
Cost of services and products (excluding				
Depreciation, amortization and accretion				1,036,881
expense reported below)	515,731	527,670	1,075,623	
Selling, general and administrative	470,720	502,404	957,623	1,010,003
Depreciation, amortization and accretion	254,203	198,509	496,280	395,943
Loss on impairment of assets	-	515	-	515
Loss on asset disposals, net	8,319	2,995	13,935	5,074
(Gain) loss on sale of business and				
other exit costs, net	(303,034)	-	(296,103)	(4,174)
		1,232,093		2,444,242
Total operating expenses	945,939		2,247,358	
<b>Operating income</b>	282,227	91,076	289,381	184,718
<b>Investment and other income (expense)</b>				
Equity in earnings of unconsolidated entities	35,605	25,392	62,694	48,781
Interest and dividend income	2,600	2,352	4,178	4,535
Gain (loss) on investments	14,518	(3,728)	14,518	(3,728)
Interest expense	(23,749)	(23,139)	(48,247)	(47,603)
Other, net	(197)	(249)	(351)	(21)
Total investment and other income (expense)	28,777	628	32,792	1,964

<b>Income before income taxes</b>	311,004	91,704	322,173	186,682
Income tax expense	132,607	35,765	136,787	63,177
<b>Net income</b>	178,397	55,939	185,386	123,505
Less: Net income attributable to noncontrolling interests, net of tax	(22,320)	(13,602)	(27,890)	(28,914)
<b>Net income attributable to TDS shareholders</b>	156,077	42,337	157,496	94,591
TDS Preferred dividend requirement	(12)	(12)	(25)	(25)
<b>Net income available to common shareholders</b>	\$ 156,065	\$ 42,325	\$ 157,471	\$ 94,566
<b>Basic weighted average shares outstanding</b>	108,385	108,732	108,320	108,693
<b>Basic earnings per share attributable to TDS shareholders</b>	\$ 1.44	\$ 0.39	\$ 1.45	\$ 0.87
<b>Diluted weighted average shares outstanding</b>	108,913	109,022	108,827	108,964
<b>Diluted earnings per share attributable to TDS shareholders</b>	\$ 1.42	\$ 0.39	\$ 1.44	\$ 0.86
<b>Dividends per share to TDS shareholders</b>	\$ 0.1275	\$ 0.1225	\$ 0.2550	\$ 0.2450

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

## Telephone and Data Systems, Inc.

**Consolidated Statement of Comprehensive Income****(Unaudited)**

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
<b>Net income</b>	\$ 178,397	\$ 55,939	\$ 185,386	\$ 123,505
<b>Net change in accumulated other</b>				
<b>comprehensive income (loss)</b>				
Change in net unrealized gain (loss) on equity				
investments	51	49	51	49
Change in foreign currency translation adjustment	-	-	15	-
Change related to retirement plan			.	
Amounts included in net periodic benefit cost for				
the period				
Amortization of prior service cost	(902)	(934)	(1,804)	(1,868)
Amortization of unrecognized net loss	602	623	1,204	1,246
Change in deferred income taxes	(300)	(311)	(600)	(622)
Change related to retirement plan, net of tax	114	463	228	933
Change related to retirement plan, net of tax	(186)	152	(372)	311
Net change in accumulated other comprehensive				
income (loss)	(135)	201	(306)	360
<b>Comprehensive income</b>	178,262	56,140	185,080	123,865
Less: Comprehensive income attributable to				
noncontrolling interest	(22,320)	(13,602)	(27,890)	(28,914)
<b>Comprehensive income attributable to</b>				
<b>TDS shareholders</b>	\$ 155,942	\$ 42,538	\$ 157,190	\$ 94,951

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





**Telephone and Data Systems, Inc.****Consolidated Statement of Cash Flows****(Unaudited)**

<b>(Dollars in thousands)</b>	<b>Six Months Ended</b>	
	<b>2013</b>	<b>June 30,</b>
		<b>2012</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 185,386	\$ 123,505
Add (deduct) adjustments to reconcile net income to net cash flows		
from operating activities		
Depreciation, amortization and accretion	496,280	395,943
Bad debts expense	35,187	33,626
Stock-based compensation expense	12,902	20,955
Deferred income taxes, net	(21,246)	29,929
Equity in earnings of unconsolidated entities	(62,694)	(48,781)
Distributions from unconsolidated entities	47,635	6,973
Loss on impairment of assets	-	515
Loss on asset disposals, net	13,935	5,074
(Gain) loss on sale of business and other exit costs, net	(296,103)	(4,174)
(Gain) loss on investments	(14,518)	3,728
Noncash interest expense	997	1,728
Other operating activities	505	1,010
Changes in assets and liabilities from operations		
Accounts receivable	(5,781)	(10,197)
Inventory	(8,105)	(58,467)
Accounts payable	58,204	(23,336)
Customer deposits and deferred revenues	7,897	22,786
Accrued taxes	150,425	89,433
Accrued interest	2,172	(1,823)
Other assets and liabilities	(81,586)	(81,517)
	521,492	506,910
<b>Cash flows from investing activities</b>		
Cash used for additions to property, plant and equipment	(384,281)	(501,211)
Cash paid for acquisitions and licenses	(14,150)	(52,213)
Cash received from divestitures	480,000	50,036
Cash paid for investments	-	(45,000)
Cash received for investments	15,000	128,444
Other investing activities	14,127	(8,916)
	110,696	(428,860)
<b>Cash flows from financing activities</b>		
Repayment of long-term debt	(605)	(952)
Issuance of long-term debt	-	358

TDS Common Shares and Special Common Shares reissued for benefit plans,

net of tax payments	776	(39)
U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	(2,206)	(2,465)
Repurchase of U.S. Cellular Common Shares	(18,425)	-
Dividends paid to TDS shareholders	(27,598)	(26,610)
U.S. Cellular dividends paid to noncontrolling public shareholders	(75,235)	-
Payment of debt issuance costs	(23)	-
Distributions to noncontrolling interests	(3,292)	(643)
Other financing activities	354	2,790
	(126,254)	(27,561)
<b>Net increase in cash and cash equivalents</b>	<b>505,934</b>	<b>50,489</b>
<b>Cash and cash equivalents</b>		
Beginning of period	740,481	563,275
End of period	\$ 1,246,415	\$ 613,764

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

## Telephone and Data Systems, Inc.

Consolidated Balance Sheet — Assets(Unaudited)

<b>(Dollars in thousands)</b>	<b>June 30,</b>	<b>December 31,</b>
	<b>2013</b>	<b>2012</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,246,415	\$ 740,481
Short-term investments	110,352	115,700
Accounts receivable		
Due from customers and agents, less allowances of \$28,368 and \$28,152, respectively	353,580	409,720
Other, less allowances of \$3,030 and \$5,263, respectively	132,016	164,608
Inventory	168,700	160,692
Net deferred income tax asset	56,822	43,411
Prepaid expenses	93,383	86,385
Income taxes receivable	9	9,625
Other current assets	32,375	32,815
	2,193,652	1,763,437
<b>Assets held for sale</b>	78,389	163,242
<b>Investments</b>		
Licenses	1,418,832	1,480,039
Goodwill	759,885	797,194
Other intangible assets, net of accumulated amortization of \$102,890 and \$143,613,		
respectively	52,592	58,522
Investments in unconsolidated entities	312,046	179,921
Long-term investments	40,120	50,305
Other investments	738	824
	2,584,213	2,566,805
<b>Property, plant and equipment</b>		
	10,758,765	10,808,499
In service and under construction		
Less: Accumulated depreciation	6,989,832	6,811,233
	3,768,933	3,997,266
<b>Other assets and deferred charges</b>	129,578	133,150
<b>Total assets</b>	\$ 8,754,765	\$ 8,623,900

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



## Telephone and Data Systems, Inc.

Consolidated Balance Sheet — Liabilities and Equity(Unaudited)

<b>(Dollars and shares in thousands)</b>	<b>June 30,</b>	<b>December 31,</b>
	<b>2013</b>	<b>2012</b>
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 1,899	\$ 1,233
Accounts payable	393,906	377,291
Customer deposits and deferred revenues	228,259	222,345
Accrued interest	8,599	6,565
Accrued taxes	190,836	48,237
Accrued compensation	95,677	134,932
Other current liabilities	114,910	134,005
	1,034,086	924,608
<b>Liabilities held for sale</b>	559	19,594
<b>Deferred liabilities and credits</b>		
Net deferred income tax liability	855,623	862,580
Other deferred liabilities and credits	460,991	438,727
<b>Long-term debt</b>	1,720,642	1,721,571
<b>Commitments and contingencies</b>	-	-
<b>Noncontrolling interests with redemption features</b>	512	493
<b>Equity</b>		
TDS shareholders' equity		
Series A Common and Common Shares		
Authorized 290,000 shares (25,000 Series A Common and 265,000 Common Shares)		
Issued 132,694 shares (7,149 Series A Common and 125,545 Common Shares) and 132,672 shares (7,160 Series A Common and 125,512 Common Shares), respectively		
Outstanding 108,289 shares (7,149 Series A Common and 101,140 Common Shares) and 108,031 shares (7,160 Series A Common and 100,871 Common Shares), respectively		
Par Value (\$.01 per share) of \$1,327 (\$72 Series A Common and \$1,255 Common Shares) and \$1,327 (\$72 Series A Common and \$1,255	1,327	1,327

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Common Shares), respectively		
Capital in excess of par value	2,299,091	2,304,122
Treasury shares at cost:		
24,405 and 24,641 Common Shares, respectively	(738,397)	(750,099)
Accumulated other comprehensive loss	(8,438)	(8,132)
Retained earnings	2,586,567	2,464,318
Total TDS shareholders' equity	4,140,150	4,011,536
Preferred shares	825	825
Noncontrolling interests	541,377	643,966
Total equity	4,682,352	4,656,327
<b>Total liabilities and equity</b>	<b>\$ 8,754,765</b>	<b>\$ 8,623,900</b>

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

## Telephone and Data Systems, Inc.

Consolidated Statement of Changes in Equity(Unaudited)

	Series A Common (Dollars and in Common thousands December 31, 2012	Capital in Excess of Par Value	TDS Shareholders Accumulated		Retained Earnings	Total TDS Shareholders' Equity	Non		Total Equity
			Treasury Common Shares	Other Comprehensive Income (Loss)			Preferred Shares	controlling Interests	
	1,327	2,304,122			2,464,318	4,011,536	825	643,966	4,656,327
	\$	\$	\$ (750,099)	\$ (8,132)	\$	\$	\$	\$	\$
Add									
(Deduct)									
Net income attributable to TDS									
shareholders - Net income attributable		-	-	-	157,496	157,496	-	-	157,496
to noncontrolling interests									
classified as equity	-	-	-	-	-	-	-	27,871	27,871
Net unrealized gain									
(loss) on equity investments	-	-	-	51	-	51	-	-	51

Change  
in  
foreign  
currency

translation  
adjustment -