

TELEPHONE & DATA SYSTEMS INC /DE/
 Form 10-Q
 May 02, 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 March 31, 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	

• 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 the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).														x	
• 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						
• 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.															
Class										Outstanding at March 31, 2014					
Common Shares, \$0.01 par value										101,573,846 Shares					
Series A Common Shares, \$0.01 par value										7,175,948 Shares					

Telephone and Data Systems, Inc.			
Quarterly Report on Form 10-Q			
For the Quarterly Period Ended March 31, 2014			
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Item 1. Financial Statements					
Telephone and Data Systems, Inc.					
<u>Consolidated Statement of Operations</u>					
(Unaudited)					
Three Months Ended					
March 31,					
(Dollars and shares in thousands, except per share amounts)			2014		2013
Operating revenues					
	Service		\$ 1,080,242		\$ 1,198,902
	Equipment and product sales		115,720		109,671
		Total operating revenues	1,195,962		1,308,573
Operating expenses					
	Cost of services (excluding Depreciation, amortization and accretion reported below)		275,958		299,127
	Cost of equipment and products		306,647		260,765
	Selling, general and administrative		463,669		486,903
	Depreciation, amortization and accretion		224,919		242,077
	(Gain) loss on asset disposals, net		2,430		5,616
	(Gain) loss on sale of business and other exit costs, net		(6,900)		6,931
	(Gain) loss on license sales and exchanges		(91,446)		-
		Total operating expenses	1,175,277		1,301,419
Operating income			20,685		7,154
Investment and other income (expense)					
	Equity in earnings of unconsolidated entities		37,327		27,089
	Interest and dividend income		2,486		1,578
	Interest expense		(28,707)		(24,498)
	Other, net		160		(154)
		Total investment and other income	11,266		4,015
Income before income taxes			31,951		11,169
	Income tax expense		11,657		4,180
Net income			20,294		6,989

Less: Net income attributable to noncontrolling interests, net of tax		2,040			5,570
Net income attributable to TDS shareholders		18,254			1,419
TDS Preferred dividend requirement		(12)			(12)
Net income available to common shareholders	\$	18,242		\$	1,407
Basic weighted average shares outstanding		108,988			108,255
Basic earnings per share attributable to TDS shareholders	\$	0.17		\$	0.01
Diluted weighted average shares outstanding		109,672			108,693
Diluted earnings per share attributable to TDS shareholders	\$	0.16		\$	0.01
Dividends per share to TDS shareholders	\$	0.1340		\$	0.1275
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>							
<u>(Unaudited)</u>							
				Three Months Ended			
				March 31,			
(Dollars in thousands)				2014		2013	
Net income				\$	20,294	\$	6,989
Net change in accumulated other comprehensive income (loss)							
Change in foreign currency translation adjustment					(4)		15
Change related to retirement plan							
Amounts included in net periodic benefit cost for the period							
Amortization of prior service cost					(911)		(902)
Amortization of unrecognized net loss					322		602
					(589)		(300)
Change in deferred income taxes					224		114
Change related to retirement plan, net of tax					(365)		(186)
Net change in accumulated other comprehensive income (loss)					(369)		(171)
Comprehensive income					19,925		6,818
Less: Comprehensive income attributable to noncontrolling interest					2,040		5,570
Comprehensive income attributable to TDS shareholders				\$	17,885	\$	1,248
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<u>Telephone and Data Systems, Inc.</u>						
<u>Consolidated Statement of Cash Flows</u>						
<u>(Unaudited)</u>						
				Three Months Ended		
				March 31,		
(Dollars in thousands)				2014		2013
Cash flows from operating activities						
	Net income			\$	20,294	\$ 6,989
	Add (deduct) adjustments to reconcile net income to net cash flows from operating activities					
			Depreciation, amortization and accretion	224,919		242,077
			Bad debts expense	21,559		17,874
			Stock-based compensation expense	6,759		7,585
			Deferred income taxes, net	(14,510)		3,009
			Equity in earnings of unconsolidated entities	(37,327)		(27,089)
			Distributions from unconsolidated entities	12,820		8,089
			(Gain) loss on asset disposals, net	2,430		5,616
			(Gain) loss on sale of business and other exit costs, net	(6,900)		6,931
			(Gain) loss on license sales and exchanges	(91,446)		-
			Noncash interest expense	506		497
			Other operating activities	47		256
	Changes in assets and liabilities from operations					
			Accounts receivable	92,949		34,038
			Inventory	19,656		16,860
			Accounts payable	(53,403)		(3,203)
			Customer deposits and deferred revenues	(1,447)		7,904
			Accrued taxes	(1,634)		5,309
			Accrued interest	9,136		9,279
			Other assets and liabilities	(99,471)		(95,669)
				104,937		246,352
Cash flows from investing activities						
	Cash used for additions to property, plant and equipment			(150,890)		(176,318)
	Cash paid for acquisitions and licenses			(8,254)		(14,150)
	Cash received from divestitures			103,042		-
	Cash received for investments			10,000		-
	Other investing activities			1,623		6,364

					(44,479)			(184,104)
Cash flows from financing activities								
	Repayment of long-term debt				(392)			(328)
	TDS Common Shares reissued for benefit plans, net of tax payments				(50)			140
	U.S. Cellular Common Shares reissued for benefit plans, net of tax payments				316			123
	Repurchase of TDS Common Shares				(3,342)			-
	Repurchase of U.S. Cellular Common Shares				(2,000)			(18,425)
	Dividends paid to TDS shareholders				(14,582)			(13,792)
	Distributions to noncontrolling interests				(346)			(2,396)
	Other financing activities				2,834			(1,351)
					(17,562)			(36,029)
Net increase in cash and cash equivalents					42,896			26,219
Cash and cash equivalents								
	Beginning of period				830,014			740,481
	End of period				\$ 872,910		\$	766,700
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)			March 31,	December 31,
			2014	2013
Current assets				
	Cash and cash equivalents		\$ 872,910	\$ 830,014
	Short-term investments		40,056	50,104
	Accounts receivable			
	Due from customers and agents, less allowances of \$56,112 and \$63,690, respectively		424,451	551,611
	Other, less allowances of \$2,165 and \$1,914, respectively		190,558	179,503
	Inventory, net		224,904	244,560
	Net deferred income tax asset		106,077	106,077
	Prepaid expenses		89,344	87,920
	Income taxes receivable		5,679	2,397
	Other current assets		35,154	35,151
			1,989,133	2,087,337
Assets held for sale				
			-	16,027
Investments				
	Licenses		1,448,598	1,423,779
	Goodwill		836,843	836,843
	Franchise rights		123,668	123,668
	Other intangible assets, net of accumulated amortization of \$117,767 and \$112,752, respectively		66,439	71,454
	Investments in unconsolidated entities		326,279	301,772
	Other investments		611	641
			2,802,438	2,758,157
Property, plant and equipment				
	In service and under construction		11,253,631	11,239,804
	Less: Accumulated depreciation		7,474,498	7,361,660
			3,779,133	3,878,144
Other assets and deferred charges				
			178,599	164,482

Total assets				\$	8,749,303		\$	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)			March 31,	December 31,
			2014	2013
Current liabilities				
	Current portion of long-term debt		\$ 1,415	\$ 1,646
	Accounts payable		414,015	496,069
	Customer deposits and deferred revenues		287,999	289,445
	Accrued interest		15,757	6,673
	Accrued taxes		72,761	70,518
	Accrued compensation		65,486	115,031
	Other current liabilities		167,746	212,374
			1,025,179	1,191,756
Deferred liabilities and credits				
	Net deferred income tax liability		847,850	862,975
	Other deferred liabilities and credits		477,305	458,709
Long-term debt			1,720,031	1,720,074
Commitments and contingencies			-	-
Noncontrolling interests with redemption features			543	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 132,721 shares (7,176 Series A Common and 125,545 Common Shares) and 132,711 shares (7,166 Series A Common and 125,545 Common Shares), respectively		
		Outstanding 108,750 shares (7,176 Series A Common and 101,574 Common Shares) and 108,757 shares (7,166 Series A Common and 101,591 Common Shares), respectively		
			1,327	1,327

		Par Value (\$.01 per share) of \$1,327 (\$72 Series A Common and \$1,255 Common Shares)					
		Capital in excess of par value		2,313,682			2,308,807
		Treasury shares at cost:					
		23,971 and 23,954 Common Shares, respectively		(722,658)			(721,354)
		Accumulated other comprehensive loss		(938)			(569)
		Retained earnings		2,533,298			2,529,626
		Total TDS shareholders' equity		4,124,711			4,117,837
		Preferred shares		824			824
		Noncontrolling interests		552,860			551,436
		Total equity		4,678,395			4,670,097
		Total liabilities and equity		\$ 8,749,303			\$ 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	-	-	-	-	18,254	18,254	-	-	18,254
Net income attributable to noncontrolling interests classified as equity	-	-	-	-	-	-	-	2,011	2,011
Change in foreign currency	-	-	-	(4)	-	(4)	-	-	(4)

translation adjustment										
Change related to retirement plan	-	-	-	(365)	-	(365)	-	-	(365)	
TDS Common and Series A Common Share dividends	-	-	-	-	(14,570)	(14,570)	-	-	(14,570)	
TDS Preferred dividend requirement	-	-	-	-	(12)	(12)	-	-	(12)	
Repurchase of Common Shares	-	-	(3,843)	-	-	(3,843)	-	-	(3,843)	
Dividend reinvestment plan	-	800	1,874	-	-	2,674	-	-	2,674	
Incentive and compensation plans	-	(284)	665	-	-	381	-	-	381	
Adjust investment in subsidiaries for repurchases, issuances and other	-	2,780	-	-	-	2,780	-	(262)	2,518	

compensation																				
plans																				
Stock-based																				
compensation																				
awards	-	2,011	-	-	-	2,011	-	-	2,011	-	-	-	-	-	-	-	-	-	-	2,011
Tax																				
windfall																				
(shortfall)																				
from																				
stock																				
awards	-	(432)	-	-	-	(432)	-	-	(432)	-	-	-	-	-	-	-	-	-	-	-