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) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 2014 Prof the quarterly period ended March 31, 2014 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANG 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) (IRS Employer Identification No.) organization) 30 North LaSalle Street, Suite 4000, Chicago, Illinois 60602 (Address of principal executive offices) (Zip code)		T	1							T	•	1			ı			
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(Address of principal executive offices) (Zip code)		Ţ.					1	T					_	_	T			
(Address of principal executive offices) (Zip code)																		
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						(Addr	ess of p	rincipa	ai exec	utive o	iffices)	(Zip c	code)			$\overline{}$		
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Registrant's telephone number, including area code: (312) 630-1900				K	egistra	ini s ie	Герпопо	munne	er, me	Tuaing	area c	oue: (3	12) 03	0-190	T T	T		
licate by check mark Yes N		ate by o	heck r	nark													Ves	No
whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the) has fi	led all	renorts	requir	ed to k	e filed	hy Se	ction 1	3 or 1	5(d) of	f the		168	140
curities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the			_				•	-			-					he		
gistrant was required to file such reports), and (2) has been subject to such filing requirements for the			_			_	•	_	-								X	
st 90 days.										-			- 1					

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	iles).	, 12 1110	iiiis (c	71 101 5	acii siic	rier pe	orro u u	iat tire	10813111	411C 77 C.	o requi	100 10	Sucini	ara p	, os t		
ompa		e the d	efinitio	_												er repor pany" in	rting n Rule 1
Larg	ge acce	lerated	filer	X	Acce	lerated	filer		Non-	accele filer	rated		Sr		reporti pany	ing	
whe	ther the	e regist	rant is	a shell	compa	ny (as	define	d in Ru	ıle 12b	-2 of tl	he Exc	hange	Act).		<u> </u>		Х
ndica ate.	te the n	umber	of sha	res out	standin	g of ea	ich of t	he issu	ier's cla	asses o	f comi	mon st	ock, as	of the	e latest	praction	cable
			Cla	ass							Ou	tstand	ing at	Marc	h 31, 2	2014	
			Comm	on Sha	ares, \$0	.01 pa	r value			101,57	73,846	Share	S				
	Se	eries A	Comm	on Sha	ares, \$0	.01 pa	r value			7,175,	948 SI	hares					
								-				1				1	_

		Telephone and Data Systems, Inc.	
		Overtarly Deport on Form 10 O	
		Quarterly Report on Form 10-Q For the Quarterly Period Ended March 31, 2014	
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		<u>Index</u>	
		<u>Pa</u>	ge No.
<u>Part I.</u>	Financial Inf	formation	
	Item 1.	Financial Statements (Unaudited)	<u>1</u>
		Consolidated Statement of Operations	1
		Three Months Ended March 31, 2014 and 2013	<u>1</u>
		Timee Fromms Littled Francis 51, 2017 and 2013	
		Consolidated Statement of Comprehensive Income	2
		Three Months Ended March 31, 2014 and 2013	
		Consolidated Statement of Cash Flows	<u>3</u>
		Three Months Ended March 31, 2014 and 2013	
		Consolidated Balance Sheet	<u>4</u>
		March 31, 2014 and December 31, 2013	
		Consolidated Statement of Changes in Equity	6
		Three Months Ended March 31, 2014 and 2013	<u>U</u>
		Three World's Ended Water 51, 201 - tind 2015	
		Notes to Consolidated Financial Statements	<u>8</u>
	Item 2.	Management's Discussion and Analysis of Financial	<u>22</u>
		Condition and Results of Operations	
		Overview	22
		<u> </u>	<u>22</u>
		Three Months Ended March 31, 2014 and 2013	
		Results of Operations — Consolidated	<u>26</u>
		Results of Operations — U.S. Cellular	<u>28</u>
		Results of Operations — TDS Telecom	<u>33</u>
		Recent Accounting Pronouncements	<u>38</u>

		Financial Resources	38
		Liquidity and Capital Resources	<u>39</u>
		Application of Critical Accounting Policies and Estimates	<u>42</u>
		Safe Harbor Cautionary Statement	<u>43</u>
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	<u>46</u>
	Item 4.	Controls and Procedures	<u>47</u>
Part II.	Other Inform	nation	
	Item 1.	Legal Proceedings	48
	Item1A.	Risk Factors	48
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	48
	Item 5.	Other Information	49
	Item 6.	<u>Exhibits</u>	<u>50</u>
<u>Signatures</u>			

Part I.	Financial Informat	<u>ion</u>					
Item 1	Financial Statemer	<u>nts</u>					
		7	Telephone and Data System	s, Inc.			
		C					
		<u>Co</u> :	nsolidated Statement of Op	<u>eratio</u>	<u>ns</u>		
			(Unaudited)				
			-				
					Three Mor	ths En	ded
					Marc	h 31,	
(Dolla	s and shares in thou	sands, excep	t per share amounts)		2014		2013
Opera	ing revenues						
	Service			\$	1,080,242	\$	1,198,902
	Equipment and pro	oduct sales			115,720		109,671
	Total	operating rev	venues		1,195,962		1,308,573
Opera	ting expenses						
	,	excluding Dep	preciation, amortization and				
	accretion						
	mamouted helevy)				275.059		200 127
	reported below)	and maduate			275,958		299,127
	Cost of equipment				306,647 463,669		260,765 486,903
	Selling, general ar Depreciation, amo				224,919		242,077
	(Gain) loss on asso				2,430		5,616
			and other exit costs, net		(6,900)	+	6,931
	(Gain) loss on lice				(91,446)		0,931
	T '	operating ex			1,175,277		1,301,419
	Total	operating ex	Delises		1,173,277		1,301,419
Onera	ting income				20,685		7,154
Орста					20,003		7,134
Invest	nent and other incor	ne (evnense)					
IIIVEST	Equity in earnings		dated entities		37,327		27,089
	Interest and divide		dated chilles		2,486		1,578
	Interest expense	ma meome			(28,707)		(24,498)
	Other, net				160		(154)
		investment a	nd other income		11,266		4,015
	1000						.,010
Incom	e before income taxe	S			31,951		11,169
	Income tax expens			1	11,657		4,180
Net inc					20,294		6,989

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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	consolida	ated financial stat	tements.	

Telephone and Data Systems, In	nc.			-
Consolidated Statement of Comprehens	ive Incom	<u>e</u>		
(Unaudited)				
				<u></u>
		Three Mor		led
(D. II. : 41 — 1)			<u>ch 31,</u>	2012
(Dollars in thousands)	¢.	2014	- t.	2013
Net income	5	20,294	\$	6,989
Net change in accumulated other comprehensive income (loss)		(4)		15
Change in foreign currency translation adjustment		(4)		13
Change related to retirement plan Amounts included in net periodic benefit cost for the per	riod			_
Amortization of prior service cost	100	(911)		(902)
Amortization of unrecognized net loss		322		602
Amortization of unrecognized liet loss		(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 interes	st	2,040		5,570
Comprehensive income attributable to TDS shareholders	<u>s</u>	17,885	\$	1,248
Comprehensive income accinations to 100 shareholders	Ψ	17,003	Ψ	1,240
The accompanying notes are an integral part of these conso	lidated fin	ancial stateme	nts	

			Telephone an	nd Data Systems, In	nc.			
			Consolidated St	tatement of Cash F	lows			
					10 W S			
			<u>(U</u>	naudited)		Three Moi	oths Fne	hah
							ch 31,	ucu
(Dollar	s in thous	ande)				2014	11 51,	2013
`			g activities			2014		2013
Cash II	Net incon		gactivities		\$	20,294	\$	6,989
			stments to reconcile net inco	me to net cash	Ψ	20,274	Ψ	0,707
	flows	uct) auju	difficilts to reconcile flet fleo.	ine to net easi				
	110 W 5							
	from ope	erating ac	tivities					
			Depreciation, amortization a	and accretion		224,919		242,077
			Bad debts expense			21,559		17,874
			Stock-based compensation e	expense		6,759		7,585
			Deferred income taxes, net	•		(14,510)		3,009
			Equity in earnings of uncon	solidated 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 busine					
			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 operation	ıs				
			Accounts receivable			92,949		34,038
			Inventory			19,656		16,860
			Accounts payable			(53,403)		(3,203)
			Customer deposits and defer	rred 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 fl	ows from	investin	gactivities					
	Cash used	d for addi	tions to property, plant and ϵ	equipment		(150,890)		(176,318)
	Cash paid	l for acqu	isitions and licenses			(8,254)		(14,150)
	Cash rece	ived fron	n divestitures			103,042		-
	Cash rece	ived for	nvestments			10,000		_
	Other inv	esting ac	ivities			1,623		6,364

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		(44,479)		(184,104)
Cash flows from financing activities				
Repayment of long-term debt		(392)		(328)
TDS Common Shares reissued for benefit plans,		(372)		(320)
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 const	olidatea	l financial state	ments.	

	Te	elephone and Data Systems	s, Inc.			
	<u>Co</u>	nsolidated Balance Sheet -	— Ass	ets		
		(Unaudited)				
			N	Iarch 31,	De	cember 31,
(Dollars in thousands	s)			2014		2013
Current assets	-)					1
	sh equivalents		\$	872,910	\$	830,014
Short-term in				40,056		50,104
Accounts red				.,		
		and agents, less allowances 90, respectively		424,451		551,611
	Other, less allowance respectively	es of \$2,165 and \$1,914,		190,558		179,503
Inventory, n	et			224,904		244,560
Net deferred	l income tax asset			106,077		106,077
Prepaid expe	enses			89,344		87,920
Income taxe				5,679		2,397
Other curren	nt 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 rig	ghts			123,668		123,668
	cible assets, net of acc d \$112,752,	rumulated amortization of				
respectively	V			66,439		71,454
	in unconsolidated en	tities		326,279		301,772
Other invest		uno.		611		641
Stilet invest				2,802,438		2,758,157
Property, plant and ϵ				2,002,130		2,730,137
	nd under construction			11,253,631		11,239,804
	nulated depreciation			7,474,498		7,361,660
Less. Accuit	iniaica acpiecianon			3,779,133		3,878,144
				3,119,133		3,0/0,144
Other assets and defe	annod showers			178,599		164,482

Total asso	ets			\$	8,749,303		\$	8,904,147		
	The accompanying notes are an integral part of these consolidated financial statements.									

			Te	lephone and Data Systems, I	nc.			
			Consolidat	ed Balance Sheet — Liabiliti	es and	<u>l Equ</u> ity		
				(Unaudited)				
					N	March 31,	De	cember 31,
_		ares in tho	usands)			2014		2013
Curre	nt liabiliti							
			ong-term debt		\$	1,415	\$	1,646
	_	s payable				414,015		496,069
	_	•	and deferred reve	enues		287,999		289,445
	Accrued					15,757		6,673
	Accrued					72,761		70,518
	1	compensat				65,486		115,031
	Other cu	rrent liabili	ities	T		167,746		212,374
						1,025,179		1,191,756
Defer	1	ties and cr						
	Net defe	rred incom	e tax liability			847,850		862,975
	Other de	ferred liabi	lities and credits			477,305		458,709
Long-	 term debt	<u> </u> ;				1,720,031		1,720,074
Comn	nitmonts o	nd conting	ganaias					
Comm			gencies					
Nonco	ntrolling	interests v	vith redemption	features		543		536
Equity	<u>y</u>							
	TDS sha	reholders'	equity					
		Series A C	Common and Cor	nmon Shares				
			Authorized 290	0,000 shares (25,000 Series A				
			Common and 2	265,000 Common Shares)				
			Issued 132,721	shares (7,176 Series A				
				25,545 Common Shares) and				
				(7,166 Series A Common and				
				non Shares), respectively				
			_	8,750 shares (7,176 Series A				
				01,574 Common Shares) and				
				(7,166 Series A Common and				
<u> </u>	+		101,591 Comm	non Shares), respectively	+	1 227		1 225
						1,327		1,327

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	\$.01 per share) of \$1,327 (\$72 ommon and \$1,255 Common			
Capital in excess of pa	r value	2,313,682		2,308,807
Treasury shares at cost	•			
23,971 and respectivel	23,954 Common Shares,	(722,658)		(721,354)
Accumulated other con	nprehensive 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 note	s are an integral part of these consolic	lated financial state	ements	<u> </u>

				Te	elej	phone ar	ıd	Data Syster	ns,	Inc.						
				Consolio	lat	ted State	m	ent of Chan	ges	s in Equity						
									_							
 	П	Γ	T	<u> </u>	1	<u>(L</u>	<u>)n</u>	audited)		Ī	П	1	Т	<u> </u>		
 	LL		1	TDS Sha	 rel	 holders				<u> </u>	H	 	+		+	
	П					umulate	d				$\dagger \dagger$			1	T	
Series A		Capital in				Other			,	Total TDS						
Common		Capital III		\mathbf{C}_{0}	m	prehensi	iγe	e		Ivai ib				Non		
(Dollars and		Excess of		Treasury				Retained	\$ł	nareholders		•		. 111		Total
in Common thousan sis ares		Par Value		Common Shares		Income (Loss)		Earnings		Equity		eferre Shares		ontrolling Interests		Equity
December December	$\dagger \dagger$		T	Dimi Co	T	Loss,	t				F				\dagger	Lquit
31,		2 200 007	_	(524.254)		(5.0)	_	2 520 (2(4	4 4 4 5 9 2 5			d	==1 126	φ.	4 (50,005
2013 \$ 1,327 Add	7	2,308,807	\$	(721,354)	>	(569)	P	2,529,626	>	4,117,837	3	824	>	551,436	\$	4,670,097
(Deduct)																
Net			Ī		T		Ī									
income attributable																
to																
TDS																
shareholders -		_		_ [_		18,254		18,254		_		_		18,254
Net	\prod						Ī									·
income																
attributable																
to																
noncontrolling interests																
Interests																
classified as																
equity -														2,011		2,011
Change -	\prod	-		_		(4)		_		(4)		-		-		(4)
in foreign																
currency																

translation adjustment																	
Change related to retirement																	
plan			-		-		(365)		-		(365)		_		-		(365)
TDS Common and Series A																	
Common Share																	
dividends			_	\perp	-		-		(14,570)	1	(14,570)		-		-		(14,570)
TDS Preferred dividend																	
requirement Repurchase	-	+	-	+	-	╀	-	+	(12)	+	(12)	\parallel	-	\perp	-	+	(12)
of Common Shares	-		_		(3,843)		_		_		(3,843)		_		_		(3,843)
Dividend reinvestment plan	· -		800		1,874		-		-		2,674		-		-		2,674
Incentive and compensatio	n																
plans Adjust	-	+	(284) 2,780	+	665	+	-	+	-	+	381 2,780	dash	-	\perp	(262)	+	381 2,518
Adjust investment in subsidiaries	-		2,780		-		-		-		2,780		-		(202)		2,316
for repurchases,																	
issuances and other																	

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