

TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-Q
August 05, 2010

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

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)

(I.R.S. Employer Identification No.)

30 North LaSalle Street, 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

Indicate by check mark 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). Yes No

Indicate by check mark 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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 June 30, 2010
Common Shares, \$.01 par value	49,849,632 Shares
Special Common Shares, \$.01 par value	48,716,833 Shares

Series A Common Shares, \$.01 par value 6,504,284 Shares

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Telephone and Data Systems, Inc.

Quarterly Report on Form 10-Q

For the Quarterly Period Ended June 30, 2010

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Table of Contents**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		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Operating revenues	\$ 1,232,219	\$ 1,242,070	\$ 2,454,654	\$ 2,500,296
Operating expenses				
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	453,037	431,022	897,569	898,414
Selling, general and administrative Depreciation, amortization and accretion	501,329	471,076	982,416	934,939
Loss on asset disposals, net	190,258	183,512	379,647	366,505
Total operating expenses	1,214	3,021	6,645	7,191
	1,145,838	1,088,631	2,266,277	2,207,049
Operating income	86,381	153,439	188,377	293,247
Investment and other income (expense)				
Equity in earnings of unconsolidated entities	25,997	18,363	50,900	43,700
Interest and dividend income	2,674	2,902	5,115	4,974
Interest expense	(29,265)	(32,534)	(58,223)	(63,044)
Other, net	(1,929)	(25)	(2,119)	474
Total investment and other income (expense)	(2,523)	(11,294)	(4,327)	(13,896)
Income before income taxes	83,858	142,145	184,050	279,351
Income tax expense	31,469	55,242	69,392	97,081
Net income	52,389	86,903	114,658	182,270

Less: Net income attributable to noncontrolling interests, net of tax	(12,102)	(20,539)	(25,957)	(41,809)
Net income attributable to TDS shareholders	40,287	66,364	88,701	140,461
Preferred dividend requirement	(12)	(13)	(25)	(26)
Net income available to common shareholders	\$ 40,275	\$ 66,351	\$ 88,676	\$ 140,435
Basic weighted average shares outstanding	105,520	110,741	105,728	111,486
Basic earnings per share attributable to TDS shareholders	\$ 0.38	\$ 0.60	\$ 0.84	\$ 1.26
Diluted weighted average shares outstanding	105,907	110,971	106,071	111,698
Diluted earnings per share attributable to TDS shareholders	\$ 0.38	\$ 0.60	\$ 0.83	\$ 1.25
Dividends per share	\$ 0.1125	\$ 0.1075	\$ 0.2250	\$ 0.2150

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

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

	Six Months Ended	
(Dollars in thousands)	2010	June 30, 2009
Cash flows from operating activities		
Net income	\$ 114,658	\$ 182,270
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities		
Depreciation, amortization and accretion	379,647	366,505
Bad debts expense	39,633	42,761
Stock-based compensation expense	16,743	14,394
Deferred income taxes, net	(28,881)	18,882
Equity in earnings of unconsolidated entities	(50,900)	(43,700)
Distributions from unconsolidated entities	48,740	13,239
Loss on asset disposals, net	6,645	7,191
Other operating activities	3,381	2,125
Changes in assets and liabilities from operations		
Accounts receivable	(20,985)	(68,283)
Inventory	32,177	(9,928)
Accounts payable	(35,572)	(63,963)
Customer deposits and deferred revenues	4,217	(5,151)
Accrued taxes	24,209	60,406
Accrued interest	102	513
Other assets and liabilities	(31,468)	(73,300)
	502,346	443,961
Cash flows from investing activities		
Additions to property, plant and equipment	(317,950)	(290,821)
Cash paid for acquisitions and licenses	(28,264)	(15,042)
Cash paid for investments	(385,000)	(109,055)
Cash received for investments	15,661	

Other investing activities	1,479	2,040
	(714,074)	(412,878)
Cash flows from financing activities		
Repayment of long-term debt	(1,280)	(1,655)
TDS Common Shares and Special Common Shares reissued for benefit plans, net of tax payments	845	743
U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	144	(405)
Repurchase of TDS Special Common Shares	(31,092)	(86,565)
Repurchase of U.S. Cellular Common Shares	(21,423)	(19,332)
Dividends paid	(23,732)	(23,814)
Payment of debt issuance costs		(9,959)
Distributions to noncontrolling interests	(4,314)	(3,417)
Other financing activities	65	769
	(80,787)	(143,635)
Net decrease in cash and cash equivalents	(292,515)	(112,552)
Cash and cash equivalents		
Beginning of period	670,992	777,309
End of period	\$ 378,477	\$ 664,757

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

Table of Contents**Telephone and Data Systems, Inc.****Consolidated Balance Sheet Assets****(Unaudited)**

(Dollars in thousands)	June 30,	December 31,
	2010	2009
Current assets		
Cash and cash equivalents	\$ 378,477	\$ 670,992
Short-term investments	379,227	113,275
Accounts receivable		
Due from customers, less allowances of \$29,168 and \$30,422, respectively	355,004	384,470
Other, less allowances of \$6,691 and \$7,201, respectively	143,352	130,973
Inventory	124,810	156,987
Net deferred income tax asset	29,948	29,874
Prepaid expenses	92,770	94,336
Other current assets	62,659	66,764
	1,566,247	1,647,671
Investments		
Licenses	1,453,526	1,443,025
Goodwill	718,635	707,840
Other intangible assets, net of accumulated amortization of \$114,740 and \$108,944, respectively	28,693	26,589
Investments in unconsolidated entities	200,352	203,799
Long-term investments	107,506	
Other investments	9,447	9,785
	2,518,159	2,391,038
Property, plant and equipment		
In service and under construction	9,006,920	8,760,327
Less: Accumulated depreciation	5,544,179	5,252,482
	3,462,741	3,507,845
Other assets and deferred charges	63,281	65,759
Total assets	\$ 7,610,428	\$ 7,612,313

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

Table of Contents**Telephone and Data Systems, Inc.****Consolidated Balance Sheet Liabilities and Equity****(Unaudited)**

(Dollars and shares in thousands)	June 30,	December 31,
	2010	2009
Current liabilities		
Current portion of long-term debt	\$ 2,038	\$ 2,509
Accounts payable	312,527	347,348
Customer deposits and deferred revenues	169,513	164,451
Accrued interest	12,208	12,227
Accrued taxes	84,346	62,568
Accrued compensation	71,722	93,524
Other current liabilities	98,467	117,081
	750,821	799,708
Deferred liabilities and credits		
Net deferred income tax liability	492,657	517,762
Other deferred liabilities and credits	393,485	373,862
Long-term debt	1,492,500	1,492,908
Commitments and contingencies		
Noncontrolling interests with redemption features	746	727
Equity		
TDS shareholders' equity		
Series A Common, Special Common and Common Shares		
	Authorized 290,000 shares (25,000 Series A Common, 165,000 Special Common and 100,000 Common Shares)	
	Issued 127,030 shares (6,504 Series A Common, 63,442 Special Common and 57,084 Common Shares) and 127,016 shares (6,492 Series A Common, 63,442	

Special Common and 57,082 Common Shares), respectively
 Outstanding 105,070 shares (6,504 Series A Common, 48,716 Special Common and 49,850 Common Shares) and 106,022 shares (6,492 Series A Common, 49,725 Special Common and 49,805 Common Shares), respectively

Par Value (\$.01 per share) (\$65 Series A Common, \$634 Special Common and \$571 Common Shares) and (\$65 Series A Common, \$634 Special Common and \$571 Common Shares), respectively

Capital in excess of par value	1,270	1,270
Special Common and Common Treasury shares at cost:	2,098,380	2,088,807
Treasury shares 21,960 (14,726 Special Common and 7,234 Common Shares) and 20,994 (13,717 Special Common and 7,277 Common Shares), respectively	(706,987)	(681,649)
Accumulated other comprehensive loss	(3,139)	(2,710)
Retained earnings	2,420,862	2,358,580
Total TDS shareholders equity	3,810,386	3,764,298
Preferred shares	831	832
Noncontrolling interests	669,002	662,216
Total equity	4,480,219	4,427,346
Total liabilities and equity	\$ 7,610,428	\$ 7,612,313

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

Table of Contents**Telephone and Data Systems, Inc.****Consolidated Statement of Changes in Equity****(Unaudited)**

	Series		TDS Shareholders			Total TDS	Non		Total
	A		Accumulated						
	Common,	Capital in	Special	Other	Retained	Shareholders	Preferred	controlling	Equity
(Dollars	and	Excess of	Common	Comprehensive	Earnings	Equity	Shares	Interests	Equity
in	Common	Par Value	Treasury	Income					
thousands	Shares		Shares	(Loss)					
December									
31, 2009	\$ 1,270	\$ 2,088,807	\$ (681,649)	\$ (2,710)	\$ 2,358,580	\$ 3,764,298	\$ 832	\$ 662,216	\$ 4,427,346
Add									
(Deduct)									
Net									
income									
attributable									
to TDS									
shareholders					88,701	88,701			88,701
Net									
income									
attributable									
to noncontrolling									
interests classified									
as equity							25,938		25,938
Net									
unrealized									
gain (loss)									
on									
equity investments				84		84			84
Changes									
related to									
retirement plan				(513)		(513)			(513)
Common,					(23,707)	(23,707)			(23,707)
Special									

Common and Series A Common Shares dividends							
Preferred dividend requirement			(25)	(25)			(25)
Repurchase of shares		(31,092)		(31,092)	(1)		(31,093)
Dividend reinvestment plan		3,192	(971)	2,221			2,221
Incentive and compensation plans	433	2,562	(1,716)	1,279			1,279
Adjust investment in subsidiaries for repurchases, issuances and other compensation plans	1,364			1,364	(14,838)		(13,474)
Stock-based compensation awards (1)	7,731			7,731			7,731
Tax windfall (shortfall) from stock awards (2)	45			45			45
Distributions to noncontrolling interests					(4,314)		(4,314)
June 30, 2010	\$ 1,270	\$ 2,098,380	\$ (706,987)	\$ (3,139)	\$ 2,420,862	\$ 3,810,386	\$ 831