

TELEPHONE & DATA SYSTEMS INC /DE/  
Form 10-Q  
August 03, 2012

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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, 2012**

**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 or incorporation of)

**36-2669023**  
(I.R.S. Employer Identification No.)

organization)

**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, 2012
Common Shares, \$.01 par value	101,495,552 Shares
Series A Common Shares, \$.01 par value	7,135,334 Shares



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For the Quarterly Period Ended June 30, 2012**

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(Dollars and shares in thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
<b>Operating revenues</b>	\$ 1,323,169	\$ 1,279,640	\$ 2,628,960	\$ 2,538,321
<b>Operating expenses</b>				
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	527,670	476,118	1,036,881	965,159
Selling, general and administrative	502,404	479,884	1,010,003	968,695
Depreciation, amortization and accretion	198,509	193,045	395,943	383,858
Loss on impairment of intangible assets	515	—	515	—
Loss on asset disposals, net	2,995	3,238	900	4,381
Total operating expenses	1,232,093	1,152,285	2,444,242	2,322,093
<b>Operating income</b>	91,076	127,355	184,718	216,228
<b>Investment and other income (expense)</b>	25,392	22,590	48,781	41,978

Equity in earnings of unconsolidated entities				
Interest and dividend income	2,352	2,093	4,535	4,717
Gain (loss) on investment	(3,728)	13,373	(3,728)	13,373
Interest expense	(23,139)	(45,417)	(47,603)	(71,926)
Other, net	(249)	1,306	(21)	1,386
Total investment and other income (expense)	628	(6,055)	1,964	(10,472)
<b>Income before income taxes</b>	91,704	121,300	186,682	205,756
Income tax expense	35,765	11,560	63,177	41,719
<b>Net income</b>	55,939	109,740	123,505	164,037
Less: Net income attributable to noncontrolling interests, net of tax	(13,602)	(17,786)	(28,914)	(28,579)
<b>Net income attributable to TDS shareholders</b>	42,337	91,954	94,591	135,458
Preferred dividend requirement	(12)	(12)	(25)	(25)
<b>Net income available to common shareholders</b>	\$ 42,325	\$ 91,942	\$ 94,566	\$ 135,433
<b>Basic weighted average shares outstanding (1)</b>	108,732	108,423	108,693	108,678
<b>Basic earnings per share attributable to TDS shareholders (1)</b>	\$ 0.39	\$ 0.85	\$ 0.87	\$ 1.25
<b>Diluted weighted average shares outstanding (1)</b>	109,022	109,133	108,964	109,385
<b>Diluted earnings per share attributable to TDS shareholders (1)</b>	\$ 0.39	\$ 0.84	\$ 0.86	\$ 1.23
<b>Dividends per share (2)</b>	\$ 0.1225	\$ 0.1175	\$ 0.2450	\$ 0.2350

(1) On January 13, 2012, TDS shareholders approved a Share Consolidation Amendment to the Restated Certificate of Incorporation of TDS. Average basic and diluted shares outstanding used to calculate earnings per share for the comparative periods presented have been retroactively restated to reflect the impact of the increased shares outstanding as a result of the Share Consolidation Amendment.

(2) Dividends per share reflects the amount paid per share outstanding at the date the dividend was declared and has not been retroactively adjusted to reflect the impact of the Share Consolidation Amendment.

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



Table of contents**Telephone and Data Systems, Inc.****Consolidated Statement of Comprehensive Income****(Unaudited)**

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	2012	June 30, 2011	2012	June 30, 2011
<b>Net income</b>	\$ 55,939	\$ 109,740	\$ 123,505	\$ 164,037
<b>Net change in accumulated other comprehensive income</b>				
Change in net unrealized gain (loss) on equity investments	49	138	49	138
Change related to retirement plan				
Amounts included in net periodic benefit cost for the period				
Amortization of prior service cost	(934)	(954)	(1,868)	(1,908)
Amortization of unrecognized net loss	623	480	1,246	960
	(311)	(474)	(622)	(948)
Change in deferred income taxes	463	523	933	1,046
Change related to retirement plan, net of tax	152	49	311	98
Net change in accumulated other comprehensive income	201	187	360	236
<b>Comprehensive income</b>	56,140	109,927	123,865	164,273
Less: Comprehensive income attributable to noncontrolling interest	(13,602)	(17,786)	(28,914)	(28,579)
<b>Comprehensive income attributable to TDS Shareholders</b>	\$ 42,538	\$ 92,141	\$ 94,951	\$ 135,694

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



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<b>(Dollars in thousands)</b>	<b>Six Months Ended</b>	
	<b>2012</b>	<b>June 30, 2011</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 123,505	\$ 164,037
Add (deduct) adjustments to reconcile net income to net cash flows		
from operating activities		
Depreciation, amortization and accretion	395,943	383,858
Bad debts expense	33,626	29,906
Stock-based compensation expense	20,955	18,913
Deferred income taxes, net	29,929	79,637
Equity in earnings of unconsolidated entities	(48,781)	(41,978)
Distributions from unconsolidated entities	6,973	47,375
Loss on impairment of intangible assets	515	—
Loss on asset disposals, net	900	4,381
(Gain) loss on investment	3,728	(13,373)
Noncash interest expense	1,728	17,147
Other operating activities	1,010	1,070
Changes in assets and liabilities from operations		
Accounts receivable	(10,197)	(37,819)
Inventory	(58,467)	(48,826)
Accounts payable	(23,336)	24,678
Customer deposits and deferred revenues	22,786	22,600
Accrued taxes	89,433	(459)
Accrued interest	(1,823)	1,355
Other assets and liabilities	(81,517)	(90,291)
	<b>506,910</b>	<b>562,211</b>

**Cash flows from investing activities**

Cash used for additions to property, plant and equipment	(501,211)	(350,856)
Cash paid for acquisitions and licenses	(52,213)	(22,167)
Cash received from divestitures	50,036	—
Cash paid for investments	(45,000)	(71,000)
Cash received for investments	128,444	213,030
Other investing activities	(8,916)	(816)
	(428,860)	(231,809)

**Cash flows from financing activities**

Repayment of long-term debt	(952)	(613,387)
Issuance of long-term debt	358	643,700
TDS Common Shares and Special Common Shares reissued for benefit plans, net of tax payments	(39)	1,055
U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	(2,465)	1,264
Repurchase of TDS Common and Special Common Shares	—	(21,500)
Repurchase of U.S. Cellular Common Shares	—	(62,308)
Dividends paid	(26,610)	