

TELEPHONE & DATA SYSTEMS INC /DE/  
Form 10-Q  
July 31, 2015

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, 2015

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 (IRS Employer  
incorporation or Identification No.)  
organization)

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 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.

- 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).

- 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

- whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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, 2015
Common Shares, \$0.01 par value	101,363,899 Shares
Series A Common Shares, \$0.01 par value	7,196,018 Shares



Telephone and Data Systems, Inc.

Quarterly Report on Form 10-Q  
For the Quarterly Period Ended June 30, 2015

Index

	Page No.
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	4
<u>Consolidated Statement of Operations</u> <u>Three and Six Months Ended June 30, 2015 and 2014</u>	4
<u>Consolidated Statement of Comprehensive Income</u> <u>Three and Six Months Ended June 30, 2015 and 2014</u>	5
<u>Consolidated Statement of Cash Flows</u> <u>Six Months Ended June 30, 2015 and 2014</u>	6
<u>Consolidated Balance Sheet</u> <u>June 30, 2015 and December 31, 2014</u>	7
<u>Consolidated Statement of Changes in Equity</u> <u>Six Months Ended June 30, 2015 and 2014</u>	9
<u>Notes to Consolidated Financial Statements</u>	11
<u>Item 2. Management's Discussion and Analysis of Financial</u> <u>Condition and Results of Operations</u>	26
<u>Overview</u>	26
<u>Regulatory Matters</u>	30
<u>Six Months Ended June 30, 2015 and 2014</u>	
<u>Results of Operations — Consolidated</u>	31
<u>Results of Operations — U.S. Cellular</u>	33
<u>Results of Operations — TDS Telecom</u>	37
<u>Three Months Ended June 30, 2015 and 2014</u>	
<u>Results of Operations — Consolidated</u>	42
<u>Results of Operations — U.S. Cellular</u>	44
<u>Results of Operations — TDS Telecom</u>	46
<u>Recent Accounting Pronouncements</u>	48
<u>Liquidity and Capital Resources</u>	49

<u>Application of Critical Accounting Policies and Estimates</u>	<u>53</u>
<u>Safe Harbor Cautionary Statement</u>	<u>54</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>56</u>
<u>Item 4. Controls and Procedures</u>	<u>56</u>

Part II. Other Information

Item 1.    Legal  
              Proceedings    57

Item 1A.   Risk Factors   57

Item 2.    Unregistered  
              Sales of  
              Equity  
              Securities    57  
              and Use of  
              Proceeds

Item 5.    Other  
              Information    58

Item 6.    Exhibits        59

Signatures

Table of Contents

## Part I. Financial Information

## Item 1. Financial Statements

Telephone and Data Systems, Inc.

## Consolidated Statement of Operations

(Unaudited)

	Three months ended June 30,		Six Months Ended June 30,	
(Dollars and shares in thousands, except per share amounts)	2015	2014	2015	2014
Operating revenues				
Service	\$1,070,650	\$1,072,179	\$2,143,741	\$2,152,421
Equipment and product sales	205,745	164,213	384,247	279,933
Total operating revenues	1,276,395	1,236,392	2,527,988	2,432,354
Operating expenses				
Cost of services (excluding Depreciation, amortization and accretion reported below)	300,152	286,488	593,799	562,446
Cost of equipment and products	298,450	313,011	570,431	619,658
Selling, general and administrative Depreciation, amortization and accretion	435,430	470,902	873,470	934,571
	211,104	204,567	417,679	429,486
	4,752	7,903	10,129	10,333

(Gain) loss on asset disposals, net				
(Gain) loss on sale of business and other exit costs, net	(5,589)	2,611	(129,372)	(4,289)
(Gain) loss on license sales and exchanges, net	(25)	–	(122,898)	(91,446)
Total operating expenses	1,244,274	1,285,482	2,213,238	2,460,759
Operating income (loss)	32,121	(49,090)	314,750	(28,405)
Investment and other income (expense)				
Equity in earnings of unconsolidated entities	35,412	34,790	70,053	72,117
Interest and dividend income	10,117	2,751	18,502	5,237
Interest expense	(33,919)	(27,898)	(67,749)	(56,605)
Other, net	202	50	198	210
Total investment and other income	11,812	9,693	21,004	20,959
Income (loss) before income taxes	43,933	(39,397)	335,754	(7,446)
Income tax expense (benefit)	17,433	(13,671)	133,453	(2,014)
Net income (loss)	26,500	(25,726)	202,301	(5,432)
Less: Net income (loss) attributable to noncontrolling interests, net of tax	3,454	(3,688)	33,515	(1,648)
Net income (loss) attributable to TDS shareholders	23,046	(22,038)	168,786	(3,784)
TDS Preferred dividend	(12)	(12)	(25)	(25)



requirement				
Net income (loss)				
available to	\$23,034	\$(22,050)	\$168,761	\$(3,809)
common				
shareholders				
Basic weighted				
average shares	108,484	108,719	108,327	108,853
outstanding				
Basic earnings				
(loss) per share				
attributable to				
TDS	\$0.21	\$(0.20)	\$1.56	\$(0.04)
shareholders				
Diluted weighted				
average shares	109,785	108,719	109,380	108,853
outstanding				
Diluted earnings				
(loss) per share				
attributable to				
TDS	\$0.21	\$(0.20)	\$1.53	\$(0.04)
shareholders				
Dividends per				
share to TDS	\$0.141	\$0.134	\$0.282	\$0.268
shareholders				

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	
	June 30, 2015	2014	June 30, 2015	2014
Net income (loss)	\$26,500	\$(25,726)	\$202,301	\$(5,432)
Net change in accumulated other comprehensive income (loss)				
Change in net unrealized gain (loss) on equity investments	(353)	341	(353)	341
Change in foreign currency translation adjustment	(39)	(17)	(3)	(21)
Change related to retirement plan amounts included in net periodic benefit cost for the period				
Amortization of prior service cost	(852)	(911)	(1,704)	(1,822)
Amortization of unrecognized net loss	64	322	129	644
	(788)	(589)	(1,575)	(1,178)
Changes in deferred income taxes	298	224	609	447
Change related to retirement plan, net of tax	(490)	(365)	(966)	(731)
Net change in accumulated other comprehensive income (loss)	(882)	(41)	(1,322)	(411)
Comprehensive income (loss)	25,618	(25,767)	200,979	(5,843)
Less: Comprehensive income (loss) attributable to noncontrolling interest	3,454	(3,688)	33,515	(1,648)
Comprehensive income (loss) attributable to TDS shareholders	\$22,164	\$(22,079)	\$167,464	\$(4,195)

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)

(Dollars in thousands)	Six Months Ended	
	June 30, 2015	2014
Cash flows from operating activities		
Net income (loss)	\$202,301	\$(5,432)
Add (deduct) adjustments to reconcile net income (loss) to cash flows		
from operating activities		
Depreciation, amortization and accretion	417,679	429,486
Bad debts expense	54,599	52,098
Stock-based compensation expense	17,949	15,488
Deferred income taxes, net	(40,640)	(33,346)
Equity in earnings of unconsolidated entities	(70,053)	(72,117)
Distributions from unconsolidated entities	27,226	65,569
(Gain) loss on asset disposals, net	10,129	10,333
(Gain) loss on sale of business and other exit costs, net	(129,372)	(4,289)
(Gain) loss on license sales and exchanges, net	(122,898)	(91,446)
Noncash interest expense	1,363	1,014
Other operating activities	(387)	3
Changes in assets and liabilities from operations		
Accounts receivable	(17,935)	67,136
Equipment installment plans receivable	(65,124)	(47,971)
Inventory	127,021	38,674
Accounts payable	29,589	(43,132)
Customer deposits and deferred revenues	(7,005)	13,139
Accrued taxes	191,508	1,049
Accrued interest	361	22
Other assets and liabilities	(87,880)	(80,636)
	538,431	315,642
Cash flows from investing activities		
Cash used for additions to property, plant and equipment	(359,513)	(339,907)
Cash paid for acquisitions and licenses	(280,710)	(18,681)
Cash received from divestitures and exchanges	291,888	125,905
Cash received for investments	–	10,000
Other investing activities	2,328	3,720
	(346,007)	(218,963)
Cash flows from financing activities		
Repayment of long-term debt	(434)	(589)
	9,831	401

TDS Common Shares reissued for benefit plans, net of tax payments		
U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	(1,570)	830
Repurchase of TDS Common Shares	–	(20,090)
Repurchase of U.S. Cellular Common Shares	(2,302)	(8,298)
Dividends paid to TDS shareholders	(30,530)	(29,107)
Payment of debt issuance costs	(3,080)	–
Distributions to noncontrolling interests	(5,872)	(482)
Other financing activities	1,181	5,502
	(32,776)	(51,833)
Net increase in cash and cash equivalents	159,648	44,846
Cash and cash equivalents		
Beginning of period	471,901	830,014
End of period	\$631,549	\$874,860

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)

	June 30,	December 31,
(Dollars in thousands)	2015	2014
Current assets		
Cash and cash equivalents	\$631,549	\$471,901
Accounts receivable		
Due from customers and agents, less allowances of \$43,485 and \$41,431, respectively	588,085	548,537
Other, less allowances of \$1,153 and \$1,141, respectively	115,807	135,144
Inventory, net	146,686	273,707
Net deferred income tax asset	92,881	107,686
Prepaid expenses	102,975	86,506
Income taxes receivable	426	113,708
Other current assets	30,480	29,766
	1,708,889	1,766,955
Assets held for sale	22,203	103,343

Investments		
Licenses	1,837,792	1,453,574
Goodwill	771,119	771,352
Franchise rights	244,300	244,300
Other intangible assets, net of accumulated amortization of \$139,086 and \$133,823, respectively	55,123	64,499
Investments in unconsolidated entities	364,205	321,729
Other investments	465	508
	3,273,004	2,855,962
Property, plant and equipment		
In service and under construction	11,203,446	11,194,044
Less:		
Accumulated depreciation	7,476,991	7,347,919
	3,726,455	3,846,125
Other assets and deferred charges	255,761	334,554
Total assets	\$8,986,312	\$8,906,939

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)

	June 30, 2015	December 31, 2014
(Dollars and shares in thousands)		
<b>Current liabilities</b>		
Current portion of long-term debt	\$747	\$808
Accounts payable	345,747	387,125
Customer deposits and deferred revenues	317,759	324,318
Accrued interest	8,276	7,919
Accrued taxes	121,144	46,734
Accrued compensation	92,994	114,549
Other current liabilities	134,516	181,803
	1,021,183	1,063,256
<b>Liabilities held for sale</b>	—	21,643
<b>Deferred liabilities and credits</b>		
Net deferred income tax liability	885,462	941,519
Other deferred liabilities and credits	436,810	430,774
<b>Long-term debt</b>	1,993,429	1,993,586
<b>Commitments and contingencies</b>	—	—
<b>Noncontrolling interests with redemption features</b>	1,178	1,150
<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 132,766 shares (7,196 Series A Common and 125,570 Common Shares) and 132,749 shares (7,179 Series A Common and 125,570 Common Shares), respectively		
Outstanding 108,559 shares (7,196 Series A Common and 101,363 Common Shares) and 107,899 shares (7,179 Series A Common and 100,720 Common Shares), respectively		
Par Value (\$.01 per share) \$1,327 (\$72 Series A Common and \$1,255 Common Shares)	1,327	1,327
Capital in excess of par value	2,342,587	2,336,511
Treasury shares at cost:		
24,207 and 24,850 Common Shares, respectively	(735,218)	(748,199)
Accumulated other comprehensive income	5,130	6,452



Edgar Filing: TELEPHONE & DATA SYSTEMS INC /DE/ - Form 10-Q

Retained earnings	2,468,070	2,330,187
Total TDS shareholders' equity	4,081,896	3,926,278
Preferred shares	824	824
Noncontrolling interests	565,530	527,909
Total equity	4,648,250	4,455,011
Total liabilities and equity	\$8,986,312	\$8,906,939

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)

(Dollars in thousands)	TDS Shareholders Series A Common and Common		Treasury Common Shares	Accumulated		Total TDS Shareholders' Equity	Non Controlling		Total Equity
	Shares	Capital in Excess of Par Value		Other Comprehensive Income (Loss)	Retained Earnings		Preferred Shares	Interests	
December 31, 2014	\$ 1,327	\$ 2,336,511	\$(748,199)	\$ 6,452	\$ 2,330,187	\$ 3,926,278	\$ 824	\$ 527,909	\$ 4,455,011
Add (Deduct) Net income attributable to					168,786	168,786			168,786
TDS shareholders Net income attributable to noncontrolling interests								27,847	27,847
classified as equity Net unrealized gain (loss) on equity investments				(353)		(353)			(353)
Change in foreign currency				(3)		(3)			(3)

translation adjustment Change related to retirement	–	–	–	(966)	–	(966)	–	–	(966)
plan TDS Common and Series A									
Common Share dividends TDS Preferred dividend	–	–	–	–	(30,505)	(30,505)	–	–	(30,505)
requirement Dividend reinvestment plan Incentive and compensation	–	1,612	3,755	–	–	5,367	–	–	5,367
plans Adjust investment in  subsidiaries for repurchases,  issuances and other compensation	–	1,166	9,226	–	(373)	10,019	–	–	10,019
plans Stock-based compensation	–	(2,830)	–	–	–	(2,830)	–	10,007	7,177
awards Tax windfall (shortfall) from	–	6,262	–	–	–	6,262	–	–	6,262
stock awards Distributions to	–	(134)	–	–	–	(134)	–	–	(134)
noncontrolling interests	–	–	–	–	–	–	–	(233)	(233)
June 30, 2015	\$ 1,327	\$ 2,342,587	\$ (735,218)	\$ 5,130	\$ 2,468,070	\$ 4,081,896	\$ 824	\$ 565,530	\$ 4,648,250

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)

(Dollars in thousands)	TDS Shareholders Series A Common and Common		Treasury Common Shares	Accumulated		Total TDS Shareholders' Equity	Non Controlling		Total Equity
	Shares	Capital in Excess of Par Value		Other Comprehensive Income (Loss)	Retained Earnings		Preferred Shares	Interests	
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 loss attributable to	–	–	–	–	(3,784)	(3,784)	–	–	(3,784)
TDS shareholders									
Net loss attributable									
to noncontrolling interests	–	–	–	–	–	–	–	(2,045)	(2,045)
classified as equity									
Net unrealized gain	–	–	–	341	–	341	–	–	341
on equity investments									
Change in foreign currency	–	–	–	(21)	–	(21)	–	–	(21)
translation adjustment									
Change related to retirement plan	–	–	–	(731)	–	(731)	–	–	(731)

TDS Common and Series A									
Common Share dividends	–	–	–	–	(29,082)	(29,082)	–	–	(29,082)
TDS Preferred dividend	–	–	–	–	(25)	(25)	–	–	(25)
requirement									
Repurchase of Common Shares	–	–	(21,096)	–	–	(21,096)	–	–	(21,096)
Dividend reinvestment plan	–	1,470	3,468	–	–	4,938	–	–	4,938
Incentive and compensation plans	–	(314)	1,147	–	–	833	–	–	833
Adjust investment in subsidiaries for repurchases,	–	(2,224)	–	–	–	(2,224)	–	3,662	1,438
issuances and other compensation plans									
Stock-based compensation	–	5,354	–	–	–	5,354	–	–	5,354
awards									
Tax windfall (shortfall) from	–	(578)	–	–	–	(578)	–	–	(578)
stock awards									
Distributions to noncontrolling interests	–	–	–	–	–	–	–	(459)	(459)
June 30, 2014	\$ 1,327	\$ 2,312,515	\$ (737,835)	\$ (980)	\$ 2,496,735	\$ 4,071,762	\$ 824	\$ 552,594	\$ 4,625,180

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



Table of Contents

Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The accounting policies of Telephone and Data Systems, Inc. (“TDS”) conform to accounting principles generally accepted in the United States of America (“GAAP”) as set forth in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). The consolidated financial statements include the accounts of TDS and subsidiaries in which it has a controlling financial interest, including TDS’ 84%-owned wireless telephone subsidiary, United States Cellular Corporation (“U.S. Cellular”) and TDS’ wholly-owned subsidiary, TDS Telecommunications Corporation (“TDS Telecom”). In addition, the consolidated financial statements include certain entities in which TDS has a variable interest that require consolidation under GAAP. All material intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the 2015 presentation.

The consolidated financial statements included herein have been prepared by TDS, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, TDS believes that the disclosures included herein are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in TDS’ Annual Report on Form 10-K (“Form 10-K”) for the year ended December 31, 2014.

TDS’ business segments reflected in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 are U.S. Cellular, TDS Telecom’s Wireline, Cable, and Hosted and Managed Services (“HMS”) operations. TDS’ non-reportable other business activities are presented as “Corporate, Eliminations and Other”, which includes the operations of TDS’ wholly-owned subsidiaries Suttle-Straus, Inc. (“Suttle-Straus”) and Airadigm Communications, Inc. (“Airadigm”). Suttle-Straus and Airadigm’s financial results were not significant to TDS’ operations. All of TDS’ segments operate only in the United States, except for HMS, which includes an insignificant foreign operation. See Note 12 — Business Segment Information for summary financial information on each business segment.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items, unless otherwise disclosed) necessary for a fair statement of the financial position as of June 30, 2015 and December 31, 2014, and the results of operations and changes in comprehensive income for the three and six months ended June 30, 2015 and 2014 and cash flows and changes in equity for the six months ended June 30, 2015 and 2014. These results are not necessarily indicative of the results to be expected for the full year.



### Recently Issued Accounting Pronouncements

On May 28, 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). ASU 2014-09 outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers. ASU 2014-09 has an effective date of January 1, 2017. However, on July 9, 2015, the FASB affirmed a proposal to defer the effective date for one year to January 1, 2018. Under this proposal, early adoption as of January 1, 2017 also would be permissible; however, TDS does not intend to adopt early. TDS is evaluating the effects that adoption of ASU 2014-09 will have on its financial position, results of operations, and disclosures.

On August 27, 2014, the FASB issued Accounting Standards Update 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). ASU 2014-15 requires TDS to assess its ability to continue as a going concern each interim and annual reporting period and provide certain disclosures if there is substantial doubt about the entity’s ability to continue as a going concern, including management’s plan to alleviate the substantial doubt. TDS is required to adopt the provisions of ASU 2014-15 for the annual period ending December 31, 2016, but early adoption is permitted. The adoption of ASU 2014-15 will not impact TDS’ financial position or results of operations but may impact future disclosures.

On February 18, 2015, the FASB issued Accounting Standards Update 2015-02, Consolidation: Amendments to the Consolidation Analysis (“ASU 2015-02”). ASU 2015-02 simplifies consolidation accounting by reducing the number of consolidation models. Additionally, ASU 2015-02 changes certain criteria for identifying variable interest entities. TDS is required to adopt the provisions of ASU 2015-02 effective January 1, 2016. Early adoption is permitted. TDS expects that certain consolidated subsidiaries that are not defined as variable interest entities under current accounting guidance will be defined as variable interest entities under the provisions of ASU 2015-02. However, TDS does not expect the adoption of ASU 2015-02 to change the group of entities which TDS is required to consolidate in its financial statements. Accordingly, TDS does not expect the adoption of ASU 2015-02 to impact its financial position or results of operations. However, additional disclosures are expected.

Table of Contents

On April 7, 2015, the FASB issued Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires certain debt issuance costs to be presented in the balance sheet as an offset to the related debt obligation. TDS is required to apply the provisions of this update effective January 1, 2016 on a retrospective basis. Early adoption is permitted. As of June 30, 2015, TDS had \$54.8 million in debt issuance costs classified as Other assets and deferred charges that, upon adoption of the new standard, would be reclassified as an offset to Long-term debt.

On July 22, 2015, the FASB issued Accounting Standards Update 2015-11, Inventory: Simplifying the Measurement of Inventory (“ASU 2015-11”), which requires inventory to be measured at the lower of cost or net realizable value. TDS is required to adopt ASU 2015-11 on January 1, 2017. Early adoption is permitted. TDS is evaluating the effects that adoption of ASU 2015-11 will have on its financial position and results of operations.

#### Amounts Collected from Customers and Remitted to Governmental Authorities

TDS records amounts collected from customers and remitted to governmental authorities net within a tax liability account if the tax is assessed upon the customer and TDS merely acts as an agent in collecting the tax on behalf of the imposing governmental authority. If the tax is assessed upon TDS, then amounts collected from customers as recovery of the tax are recorded in Service revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled \$25.2 million and \$51.5 million for the three and six months ended June 30, 2015, respectively, and \$29.1 million and \$60.1 million for the three and six months ended June 30, 2014, respectively.

## 2. Fair Value Measurements

As of June 30, 2015 and December 31, 2014, TDS did not have any financial or nonfinancial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP.

The provisions of GAAP establish a fair value hierarchy that contains three levels for inputs used in fair value measurements. Level 1 inputs include quoted market prices for identical assets or liabilities in active markets. Level 2 inputs include quoted market prices for similar assets and liabilities in active markets or quoted market prices for identical assets and liabilities in inactive markets. Level 3 inputs are unobservable. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. A financial instrument’s level within the fair value hierarchy is not representative of its expected performance or its overall risk profile and, therefore, Level 3 assets are not necessarily higher risk than Level 2 or Level 1 assets.

TDS has applied the provisions of fair value accounting for purposes of computing the fair value of financial instruments for disclosure purposes as displayed below.

	Level within the Fair Value Hierarchy	June 30, 2015		December 31, 2014	
		Book Value	Fair Value	Book Value	Fair Value
(Dollars in thousands)					
	1	\$631,549	\$631,549	\$471,901	\$471,901

Cash and cash  
equivalents

Long-term debt

Retail	2	1,453,250	1,435,862	1,453,250	1,414,105
Institutional and other	2	537,315	508,127	537,471	518,322

The fair value of Cash and cash equivalents approximates the book value due to the short-term nature of these financial instruments. Long-term debt excludes capital lease obligations and the current portion of Long-term debt. The fair value of "Retail" Long-term debt was estimated using market prices for TDS' 7.0% Senior Notes, 6.875% Senior Notes, 6.625% Senior Notes and 5.875% Senior Notes, and U.S. Cellular's 6.95% Senior Notes and 7.25% Senior Notes. TDS' "Institutional" debt consists of U.S. Cellular's 6.7% Senior Notes which are traded over the counter. TDS estimated the fair value of its Institutional and other debt through a discounted cash flow analysis using the interest rates or estimated yield to maturity for each borrowing, which ranged from 0.00% to 7.44% and 0.00% to 7.25% at June 30, 2015 and December 31, 2014, respectively.

Table of Contents

## 3. Equipment Installment Plans

TDS offers customers the option to purchase certain devices under an equipment installment contract over a period of up to 24 months. Under certain equipment installment plans, the customer has the right to upgrade to a new device after a specified period of time and have the remaining unpaid equipment installment contract balance waived, subject to certain conditions, including trading in the original device in good working condition and signing a new equipment installment contract. TDS values this trade-in right as a guarantee liability. The guarantee liability is initially measured at fair value and is determined based on assumptions including the probability and timing of the customer upgrading to a new device and the fair value of the device being traded-in at the time of trade-in. As of June 30, 2015 and December 31, 2014, the guarantee liability related to these plans was \$80.2 million and \$57.5 million, respectively, and is reflected in Customer deposits and deferred revenues in the Consolidated Balance Sheet.

TDS equipment installment plans do not provide for explicit interest charges. For equipment installment plans with a duration of greater than twelve months, TDS imputes interest.

The following table summarizes unbilled equipment installment plan receivables as of June 30, 2015 and December 31, 2014. Such amounts are presented on the Consolidated Balance Sheet as Accounts receivable – customers and agents (short-term portion) and Other assets and deferred charges (long-term portion).

(Dollars in thousands)	June 30, 2015	December 31, 2014
Short-term portion of unbilled equipment installment plan receivables, gross	\$208,955	\$127,400
Short-term portion of unbilled deferred interest	(19,488)	(16,365)
Short-term portion of unbilled allowance for credit losses	(7,404)	(3,686)
	\$182,063	\$107,349
Short-term portion of unbilled equipment installment plan receivables,		

net

Long-term portion of unbilled equipment installment plan receivables, gross	\$73,548	\$89,435
Long-term portion of unbilled deferred interest	(1,136)	(2,791)
Long-term portion of unbilled allowance for credit losses	(5,176)	(6,065)

Long-term portion of unbilled equipment installment plan receivables, net	\$67,236	\$80,579
--	----------	----------

TDS assesses the collectability of equipment installment plan receivables based on historical payment experience, account aging and other qualitative factors. To mitigate credit risk, TDS requires certain customers who desire to purchase equipment under an installment plan to make a down payment.

TDS recorded out-of-period adjustments during the six months ended June 30, 2015 due to errors related to equipment installment plan transactions that were attributable to 2014. TDS has determined that these adjustments were not material to the prior quarterly or annual periods, and also were not material to the current period or anticipated full year 2015 results. These equipment installment plan adjustments had the impact of reducing Equipment and product sales revenues by \$5.7 million and \$6.2 million, and Income before income taxes by \$5.3 million and \$5.8 million, for the three and six months ended June 30, 2015, respectively.

#### 4. Income Taxes

TDS' overall effective tax rate on Income (loss) before income taxes for the three and six months ended June 30, 2015 was 39.7%, and for the three and six months ended June 30, 2014 was 34.7% and 27.0%, respectively.

The lower effective tax rate for the six months ended June 30, 2014 resulted from the relatively low amount of Income (loss) before income taxes in that period, which magnified the effective rate impact of discrete tax expense items.

Table of Contents

## 5. Earnings Per Share

Basic earnings (loss) per share attributable to TDS shareholders is computed by dividing Net income (loss) available to common shareholders of TDS by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share attributable to TDS shareholders is computed by dividing Net income (loss) available to common shareholders of TDS by the weighted average number of common shares outstanding during the period adjusted to include the effects of potentially dilutive securities. Potentially dilutive securities primarily include incremental shares issuable upon exercise of outstanding stock options and the vesting of restricted stock units.

The amounts used in computing earnings (loss) per common share and the effects of potentially dilutive securities on the weighted average number of common shares were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
(Dollars and shares in thousands, except per share amounts)				
Basic earnings (loss) per share attributable to TDS shareholders:				
Net income (loss) available to common shareholders of	\$23,034	\$(22,050)	\$168,761	\$(3,809)
TDS used in basic earnings (loss) per share				
Adjustments to compute diluted earnings (loss):				
Noncontrolling interest adjustment	(116)	—	(1,214)	(5)
Preferred dividend adjustment	—	—	25	—
Net income (loss) attributable to common shareholders				

of				
TDS used in diluted earnings (loss) per share	\$22,918	\$(22,050)	\$167,572	\$(3,814)
Weighted average number of shares used in basic earnings (loss) per share:				
Common Shares	101,296	101,543	101,144	101,682
Series A Common Shares	7,188	7,176	7,183	7,171
Total	108,484	108,719	108,327	108,853
Effects of dilutive securities:				
Stock options	896	—	623	—
Restricted stock units	405	—	384	—
Preferred shares	—	—	46	—
Weighted average number of shares used in diluted earnings (loss) per share	109,785	108,719	109,380	108,853
Basic earnings (loss) per share attributable to TDS shareholders	\$0.21	\$(0.20)	\$1.56	\$(0.04)
Diluted earnings (loss) per share attributable to TDS shareholders	\$0.21	\$(0.20)	\$1.53	\$(0.04)

Certain Common Shares issuable upon the exercise of stock options, vesting of restricted stock units or conversion of preferred shares were not included in average diluted shares outstanding for the calculation of Diluted earnings (loss) per share attributable to TDS shareholders because their effects were antidilutive. The number of such Common Shares excluded, if any, is shown in the table below.





Table of Contents

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
(Shares in thousands)				
Stock options	4,523	8,883	5,304	8,777
Restricted stock units	204	824	104	737
Preferred shares	46	56	–	56

## 6. Acquisitions, Divestitures and Exchanges

## Divestiture Transaction

On May 16, 2013, pursuant to a Purchase and Sale Agreement, U.S. Cellular sold customers and certain PCS license spectrum to subsidiaries of Sprint Corp. fka Sprint Nextel Corporation (“Sprint”) in U.S. Cellular’s Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets (“Divestiture Markets”) in consideration for \$480 million in cash. The Purchase and Sale Agreement also contemplated certain other agreements, together with the Purchase and Sale Agreement collectively referred to as the “Divestiture Transaction.”

These agreements require Sprint to reimburse U.S. Cellular up to \$200 million (the “Sprint Cost Reimbursement”) for certain network decommissioning costs, network site lease rent and termination costs, network access termination costs, and employee termination benefits for specified engineering employees. As of June 30, 2015, U.S. Cellular had received a cumulative total of \$104.8 million pursuant to the Sprint Cost Reimbursement. For the six months ended June 30, 2015 and 2014, \$23.2 million and \$34.1 million, respectively, of the Sprint Cost Reimbursement had been received and recorded in Cash received from divestitures and exchanges in the Consolidated Statement of Cash Flows.

For the six months ended June 30, 2015 and 2014, as a result of the Divestiture Transaction, U.S. Cellular recognized gains of \$5.9 million and \$17.7 million, respectively, in (Gain) loss on sale of business and other exit costs, net. For the three months ended June 30, 2015 and 2014, U.S. Cellular recognized gains of \$1.5 million and \$10.6 million, respectively.

## Other Acquisitions, Divestitures and Exchanges

- In March 2015, U.S. Cellular exchanged certain of its unbuilt PCS licenses for certain other PCS licenses located in U.S. Cellular’s existing operating markets and \$117.0 million of cash. As of the transaction date, the licenses received in the transaction had an estimated fair value, per a market approach, of \$43.5 million. A gain of \$125.2 million was recorded in (Gain) loss on license sales and exchanges, net in the Consolidated Statement of Operations in the first quarter of 2015.

- An FCC auction of AWS-3 spectrum licenses, referred to as Auction 97, ended in January 2015. U.S. Cellular participated in Auction 97 indirectly through its limited partnership interest in Advantage Spectrum L.P. (“Advantage Spectrum”). Advantage Spectrum was the provisional winning bidder for 124 licenses for an aggregate winning bid of \$338.3 million, after its designated entity discount of 25%. Advantage Spectrum’s bid amount, less the initial deposit amount of \$60.0 million paid in 2014, was paid to the FCC in March 2015. These licenses are expected to be granted by the FCC during the latter half of 2015. See Note 9 — Variable Interest Entities for additional information.
- In December 2014, U.S. Cellular entered into an agreement with a third party to sell 595 towers and certain related contracts, assets, and liabilities for \$159.0 million. This transaction was accomplished in two closings. The first closing occurred in December 2014 and included the sale of 236 towers, without tenants, for \$10.0 million. On this same date, U.S. Cellular received \$7.5 million in earnest money. At the time of the first closing, a \$4.7 million gain was recorded. The second closing for the remaining 359 towers, primarily with tenants, took place in January 2015, at which time U.S. Cellular received \$141.5 million in additional cash proceeds and recorded a gain of \$119.6 million in (Gain) loss on sale of business and other exit costs, net.
- In September 2014, U.S. Cellular entered into an agreement with a third party to exchange certain PCS and AWS licenses for certain other PCS and AWS licenses and \$28.0 million of cash. This license exchange was accomplished in two closings. The first closing occurred in December 2014 at which time U.S. Cellular received licenses with an estimated fair value, per a market approach, of \$51.5 million, recorded a \$21.7 million gain and recorded an \$18.3 million deferred credit in Other current liabilities. The license that was transferred to the counterparty in the second closing had a net book value of \$22.2 million and was classified as “Assets held for sale” in the Consolidated Balance Sheet as of June 30, 2015. The second closing occurred in July 2015. At the time of the second closing, U.S. Cellular received \$28.0 million in cash, recognized the deferred credit from the first closing and recorded a \$24.1 million gain on this part of the license exchange.

Table of Contents

## 7. Intangible Assets

Changes in Licenses at TDS for the six months ended June 30, 2015 are presented below. There were no significant changes to Franchise rights, Goodwill or other intangible assets during the six months ended June 30, 2015.

## Licenses

(Dollars in  
thousands)

## Balance

December \$1,453,574  
31, 2014

Acquisitions  
(1) 339,656

Exchanges  
(2) 43,485

Other 1,077

Balance June \$1,837,792  
30, 2015

Amount includes  
payments totaling  
\$338.3 million  
made by

Advantage

Spectrum to the  
FCC for licenses  
in which it was  
the provisional

(1) winning bidder in  
Auction 97. See  
Note 6 —

Acquisitions,

Divestitures and

Exchanges, and

Note 9 — Variable

Interest Entities

for further

information.

(2) Amount  
represents licenses  
received in the  
March 2015 PCS  
license exchange.

See Note 6 —

Acquisitions,

Divestitures and Exchanges for further information. Licenses disposed of in the exchange were previously removed from the Licenses balance and reflected in Assets held for sale in the Consolidated Balance Sheet as of December 31, 2014.

#### 8. Investments in Unconsolidated Entities

Investments in unconsolidated entities consist of amounts invested in wireless and wireline entities in which TDS holds a noncontrolling interest. These investments are accounted for using either the equity or cost method.

The following table, which is based on information provided in part by third parties, summarizes the combined results of operations of TDS' equity method investments.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
(Dollars in thousands)				
Revenues	\$ 1,726,558	\$ 1,635,216	\$ 3,460,818	\$ 3,259,900
Operating expenses	1,281,625	1,209,412	2,572,643	2,343,092
Operating income	444,933	425,804	888,175	916,808
Other income, net	(10,873)	378	(6,508)	2,403
Net income	\$ 434,060	\$ 426,182	\$ 881,667	\$ 919,211

#### 9. Variable Interest Entities

TDS consolidates variable interest entities (VIEs) in which it has a controlling financial interest and is the primary beneficiary. A controlling financial interest will have both of the following characteristics: (a) the power to direct the VIE activities that most significantly impact economic performance and (b) the obligation to absorb VIE losses and the right to receive benefits that are significant to the VIE. TDS reviews these criteria initially at the time it enters into agreements and subsequently when reconsideration events occur.

##### Consolidated VIEs

As of June 30, 2015, TDS holds a variable interest in and consolidates the following VIEs under GAAP:

- Advantage Spectrum and Frequency Advantage L.P., the general partner of Advantage Spectrum;

- Aquinas Wireless L.P. (“Aquinas Wireless”); and
- King Street Wireless L.P. (“King Street Wireless”) and King Street Wireless, Inc., the general partner of King Street Wireless.

Table of Contents

The power to direct the activities that most significantly impact the economic performance of Advantage Spectrum, Aquinas Wireless and King Street Wireless (collectively, the “limited partnerships”) is shared. Specifically, the general partner of these VIEs has the exclusive right to manage, operate and control the limited partnerships and make all decisions to carry on the business of the partnerships; however, the general partner of each partnership needs the consent of the limited partner, a TDS subsidiary, to sell or lease certain licenses, to make certain large expenditures, admit other partners or liquidate the limited partnerships. Although the power to direct the activities of the VIEs is shared, TDS has a disproportionate level of exposure to the variability associated with the economic performance of the VIEs, indicating that TDS is the primary beneficiary of the VIEs in accordance with GAAP. Accordingly, these VIEs are consolidated.

The following table presents the classification of the consolidated VIEs’ assets and liabilities in TDS’ Consolidated Balance Sheet.

	June 30, 2015	December 31, 2014
(Dollars in thousands)		
Assets		
Cash and cash equivalents	\$2,069	\$2,588
Other current assets	211	278
Licenses (1)	651,281	312,977
Property, plant and equipment, net	9,636	10,671
Other assets and deferred charges	150	60,059
Total assets	\$663,347	\$386,573
Liabilities		
Current liabilities	\$83	\$110
Deferred liabilities and credits	567	622
Total liabilities	\$650	\$732

Includes payments totaling \$338.3 million made by Advantage Spectrum to the FCC as described below.

## Other Related Matters

In March 2015, King Street Wireless made a \$60.0 million distribution to its investors. Of this distribution, \$6.0 million was provided to King Street Wireless, Inc. and \$54.0 million was provided to U.S. Cellular.

An FCC auction of AWS-3 spectrum licenses, referred to as Auction 97, ended in January 2015. TDS participated in Auction 97 indirectly through its interest in Advantage Spectrum. A subsidiary of U.S. Cellular is a limited partner in Advantage Spectrum. Advantage Spectrum qualified as a “designated entity,” and thereby was eligible for bid credits with respect to spectrum purchased in Auction 97. Advantage Spectrum was the winning bidder for 124 licenses for an aggregate bid of \$338.3 million, after its designated entity discount of 25%. This amount is classified as Licenses in TDS’ Consolidated Balance Sheet. Advantage Spectrum’s bid amount, less the initial deposit of \$60.0 million paid in 2014, plus certain other charges totaling \$2.3 million, were paid to the FCC in March 2015. To help fund this payment, U.S. Cellular made loans and capital contributions to Advantage Spectrum and Frequency Advantage totaling \$280.6 million for the six months ended June 30, 2015. There were no capital contributions, loans or advances made to TDS’ VIEs during the six months ended June 30, 2014.

Advantage Spectrum, Aquinas Wireless and King Street Wireless were formed to participate in FCC auctions of wireless spectrum and to fund, establish, and provide wireless service with respect to any FCC licenses won in the auctions. As such, these entities have risks similar to those described in the “Risk Factors” in TDS’ Form 10-K for the year ended December 31, 2014.

TDS may agree to make additional capital contributions and/or advances to Advantage Spectrum, Aquinas Wireless or King Street Wireless and/or to their general partners to provide additional funding for the development of licenses granted in various auctions. TDS may finance such amounts with a combination of cash on hand, borrowings under its revolving credit agreement and/or other long-term debt. There is no assurance that TDS will be able to obtain additional financing on commercially reasonable terms or at all to provide such financial support.



Table of Contents

## 10. Noncontrolling Interests

The following schedule discloses the effects of Net income (loss) attributable to TDS shareholders and changes in TDS' ownership interest in U.S. Cellular on TDS' equity:

	Six Months Ended	
	June 30,	
	2015	2014
(Dollars in thousands)		
Net income (loss) attributable to TDS shareholders	\$ 168,786	\$(3,784)
Transfer (to) from the noncontrolling interests		
Change in TDS' Capital in excess of par value from		
U.S. Cellular's issuance of U.S. Cellular shares	(13,096)	(10,292)
Change in TDS' Capital in excess of par value from		
U.S. Cellular's repurchases of U.S. Cellular shares	372	242
Purchase of ownership in subsidiaries from noncontrolling interests	240	—
Net transfers (to) from noncontrolling interests	(12,484)	(10,050)
Change from net income (loss)	\$ 156,302	\$(13,834)

attributable to TDS  
and

transfers (to)  
from  
noncontrolling  
interests

#### 11. Common Share Repurchases

On August 2, 2013, the Board of Directors of TDS authorized a \$250 million stock repurchase program for the purchase of TDS Common Shares from time to time pursuant to open market purchases, block transactions, private purchases or otherwise, depending on market conditions. This authorization does not have an expiration date.

On November 17, 2009, the Board of Directors of U.S. Cellular authorized the repurchase of up to 1,300,000 Common Shares on an annual basis beginning in 2009 and continuing each year thereafter, on a cumulative basis. These purchases will be made pursuant to open market purchases, block purchases, private purchases or otherwise, depending on market conditions. This authorization does not have an expiration date.

Share repurchases made under these authorizations were as follows:

Six Months Ended June 30,	Number of Shares	Average Cost Per Share	Amount
(Dollar amounts and shares in thousands, except per share data)			
2015			
TDS Common Shares	–	\$–	\$–
U.S. Cellular Common Shares	66	\$34.77	\$2,302
2014			
TDS Common Shares	809	\$26.09	\$21,096
U.S. Cellular Common Shares	212	\$40.49	\$8,598

Table of Contents

12. Business Segment Information

U.S. Cellular and TDS Telecom are billed for all services they receive from TDS, consisting primarily of information processing, accounting and finance, and general management services. Such billings are based on expenses specifically identified to U.S. Cellular and TDS Telecom and on allocations of common expenses. Management believes the method used to allocate common expenses is reasonable and that all expenses and costs applicable to U.S. Cellular and TDS Telecom are reflected in the accompanying business segment information on a basis that is representative of what they would have been if U.S. Cellular and TDS Telecom operated on a stand-alone basis.

Table of Contents

Financial data for TDS' reportable segments for the three and six month periods ended, or as of June 30, 2015 and 2014, is as follows. See Note 1 — Basis of Presentation for additional information.

Three Months Ended or as of June 30, 2015 (Dollars in thousands)	TDS Telecom					TDS Telecom Eliminations	TDS Telecom Total	Corporate, Eliminations and Other	Total
	U.S. Cellular	Wireline	Cable	HMS					
Operating revenues									
Services	\$824,373	\$175,413	\$44,545	\$29,467	\$ (1,358)	\$248,067	\$ (1,790)	\$1,070,650	
Equipment and product sales	151,294	557	70	46,119	—	46,746	7,705	205,745	
Total operating revenues	975,667	175,970	44,615	75,586	(1,358)	294,813	5,915	1,276,395	
Cost of services (excluding Depreciation, amortization and accretion expense reported below)	196,276	62,604	19,849	21,954	(1,293)	103,114	762	300,152	
Cost of equipment and products	253,671	597	15	38,566	—	39,178	5,601	298,450	
Selling, general and administrative	362,971	49,200	13,764	10,969	(65)	73,868	(1,409)	435,430	
Depreciation, amortization and accretion	150,581	41,203	8,860	6,573	—	56,636	3,887	211,104	
(Gain) loss on asset disposals, net	5,399	1,010	(1,668)	27	—	(631)	(16)	4,752	
(Gain) loss on sale of business and other exit costs, net	(1,705)	(3,054)	—	—	—	(3,054)	(830)	(5,589)	
(Gain) loss on license sales and exchanges, net	(25)	—	—	—	—	—	—	(25)	
Operating income (loss)	8,499	24,410	3,795	(2,503)	—	25,702	(2,080)	32,121	
Equity in earnings of	35,584	9	—	—	—	9	(181)	35,412	

Edgar Filing: TELEPHONE & DATA SYSTEMS INC /DE/ - Form 10-Q

unconsolidated entities								
Interest and dividend income	8,969	647	8	9	–	664	484	10,117
Interest expense	(20,154)	290	143	(485)	–	(52)	(13,713)	(33,919)
Other, net	91	(15)	2	107	–	94	17	202
Income (loss) before income taxes	32,989	25,341	3,948	(2,872)	–	26,417	(15,473)	43,933
Income tax expense (benefit) (1)	13,079					10,625	(6,271)	17,433
Net income (loss)	19,910					15,792	(9,202)	26,500
Add back:								
Depreciation, amortization and accretion	150,581	41,203	8,860	6,573	–	56,636	3,887	211,104
(Gain) loss on asset disposals, net	5,399	1,010	(1,668)	27	–	(631)	(16)	4,752
(Gain) loss on sale of business and other exit costs, net	(1,705)	(3,054)	–	–	–	(3,054)	(830)	(5,589)
(Gain) loss on license sales and exchanges, net	(25)	–	–	–	–	–	–	(25)
Interest expense	20,154	(290)	(143)	485	–	52	13,713	33,919
Income tax expense (benefit) (1)	13,079					10,625	(6,271)	17,433
Adjusted EBITDA (2)	\$207,393	\$64,210	\$10,997	\$4,213	\$–	\$79,420	\$1,281	\$288,094
Investments in unconsolidated entities	\$325,857	\$3,804	\$–	\$–	\$–	\$3,804	\$34,544	\$364,205
Total assets	\$6,596,619	\$1,351,221	\$568,494	\$284,067	\$–	\$2,203,782	\$185,911	\$8,986,312
Capital expenditures	\$133,666	\$31,722	\$11,926	\$9,422	\$–	\$53,070	\$1,864	\$188,600



Table of Contents

Three Months Ended or as of June 30, 2014 (Dollars in thousands)	TDS Telecom					TDS Telecom Elimination	TDS Telecom Total	Corporate, Eliminations and Other	Total
	U.S. Cellular	Wireline	Cable	HMS					
Operating revenues									
Services	\$843,473	\$180,297	\$22,484	\$27,575	\$ (298)	\$230,058	\$ (1,352)	\$1,072,179	
Equipment and product sales	114,300	431	–	40,361	–	40,792	9,121	164,213	
Total operating revenues	957,773	180,728	22,484	67,936	(298)	270,850	7,769	1,236,392	
Cost of services (excluding Depreciation, amortization and accretion expense reported below)	187,131	64,305	11,394	21,301	(249)	96,751	2,606	286,488	
Cost of equipment and products	271,978	481	–	33,875	–	34,356	6,677	313,011	
Selling, general and administrative	404,252	47,708	6,285	12,376	(49)	66,320	330	470,902	
Depreciation, amortization and accretion	148,337	41,827	4,557	6,791	–	53,175	3,055	204,567	
(Gain) loss on asset disposals, net	6,893	514	425	44	–	983	27	7,903	
(Gain) loss on sale of business and other exit costs, net	(10,511)	–	–	–	–	–	13,122	2,611	
Operating income (loss)	(50,307)	25,893	(177)	(6,451)	–	19,265	(18,048)	(49,090)	
Equity in earnings of unconsolidated entities	33,120	4	–	–	–	4	1,666	34,790	
Interest and dividend income	1,573	490	1	22	–	513	665	2,751	
Interest expense	(14,336)	677	30	(439)	–	268	(13,830)	(27,898)	
Other, net	100	(95)	–	45	–	(50)	–	50	

Edgar Filing: TELEPHONE & DATA SYSTEMS INC /DE/ - Form 10-Q

Income (loss) before income taxes	(29,850)	26,969	(146)	(6,823)	–	20,000	(29,547)	(39,397)
Income tax expense (benefit) (1)	(10,399)					7,962	(11,234)	(13,671)
Net income (loss)	(19,451)					12,038	(18,313)	(25,726)
Add back:								
Depreciation, amortization and accretion	148,337	41,827	4,557	6,791	–	53,175	3,055	204,567
(Gain) loss on asset disposals, net	6,893	514	425	44	–	983	27	7,903
(Gain) loss on sale of business and other exit costs, net	(10,511)	–	–	–	–	–	13,122	2,611
Interest expense	14,336	(677)	(30)	439	–	(268)	13,830	27,898
Income tax expense (benefit) (1)	(10,399)	–	–	–	–	7,962	(11,234)	(13,671)
Adjusted EBITDA (2)	\$129,205	\$68,633	\$4,806	\$451	\$ –	\$73,890	\$ 487	\$203,582
Investments in unconsolidated entities	\$270,215	\$3,810	\$–	\$–	\$ –	\$3,810	\$ 34,636	\$308,661
Total assets	\$6,298,967	\$1,408,809	\$287,809	\$335,680	\$ –	\$2,032,298	\$ 376,404	\$8,707,669
Capital expenditures	\$143,927	\$27,370	\$7,181	\$10,628	\$ –	\$45,179	\$	