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TELEPHONE & DATA SYSTEMS INC /DE/
Form 424B3
August 07, 2008

Filed Pursuant to Rule 424(b)(3)

Registration Nos. 033-08857-99

033-59435-99

333-125001

PROSPECTUS SUPPLEMENT

to

PROSPECTUS DATED MARCH 12, 2008

The attached quarterly report on Form 10-Q for the period ended June 30, 2008 was filed by the registrant with the Securities and Exchange Commission, and should be read in conjunction with the Prospectus dated March 12, 2008.

The date of this Prospectus Supplement is August 7, 2008

Table of Contents

**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, 2008**

OR

o **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 of
incorporation or organization)

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

30 North LaSalle Street, Chicago, Illinois

60602

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(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

(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, 2008
Common Shares, \$.01 par value	53,193,983 Shares
Special Common Shares, \$.01 par value	56,249,536 Shares
Series A Common Shares, \$.01 par value	6,451,896 Shares

Table of Contents

Telephone and Data Systems, Inc.

Quarterly Report on Form 10-Q

For the Period Ended June 30, 2008

Index

	Page No.
<u>Part I.</u>	
<u>Financial Information</u>	
<u>Item 1.</u>	
<u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Operations</u>	
<u>Three and Six Months Ended June 30, 2008 and 2007</u>	3
<u>Consolidated Statements of Cash Flows</u>	
<u>Six Months Ended June 30, 2008 and 2007</u>	4
<u>Consolidated Balance Sheets</u>	
<u>June 30, 2008 and December 31, 2007</u>	5
<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and</u>	28
<u>Results of Operations</u>	
<u>Overview</u>	28
<u>Six Months Ended June 30, 2008 and 2007</u>	
<u>Results of Operations - Consolidated</u>	32
<u>Results of Operations - Wireless</u>	34
<u>Results of Operations - Wireline</u>	39
<u>Three Months Ended June 30, 2008 and 2007</u>	
<u>Results of Operations - Consolidated</u>	44
<u>Results of Operations - Wireless</u>	46
<u>Results of Operations - Wireline</u>	49
<u>Recent Accounting Pronouncements</u>	53
<u>Financial Resources</u>	55
<u>Liquidity and Capital Resources</u>	57
<u>Application of Critical Accounting Policies and Estimates</u>	61
<u>Safe Harbor Cautionary Statement</u>	62
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	66
<u>Item 4.</u>	
<u>Controls and Procedures</u>	67
<u>Part II.</u>	
<u>Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	69
 Index	 4

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<u>Item 1A.</u>	<u>Risk Factors</u>	69
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	70
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security-Holders</u>	71
<u>Item 5.</u>	<u>Other Information</u>	72
<u>Item 6.</u>	<u>Exhibits</u>	72

Signatures

Table of Contents**Part I. Financial Information****Item 1. Financial Statements****Telephone and Data Systems, Inc.****Consolidated Statements of Operations****Unaudited**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars and shares in thousands, except per share amounts)			
Operating Revenues	\$ 1,274,351	\$ 1,192,834	\$ 2,523,452	\$ 2,349,391
Operating Expenses				
Cost of services and products (excluding Depreciation, amortization and accretion expense reported below)	452,845	412,507	895,228	814,540
Selling, general and administrative expense	477,299	435,843	940,598	856,261
Depreciation, amortization and accretion expense	188,026	187,697	374,184	375,701
Loss on asset disposals, net	6,438	2,832	10,090	6,137
Total Operating Expenses	1,124,608	1,038,879	2,220,100	2,052,639
Operating Income	149,743	153,955	303,352	296,752
Investment and Other Income (Expense)				
Equity in earnings of unconsolidated entities	22,909	23,875	44,379	47,571
Interest and dividend income	17,455	147,768	27,201	163,964
Interest expense	(35,570)	(55,245)	(76,950)	(113,046)
Gain (loss) on investments and financial instruments	3,088	(220,199)	(402)	35,671
Other, net	1,902	(1,868)	1,703	(4,092)
Total Investment and Other Income (Expense)	9,784	(105,669)	(4,069)	130,068
Income Before Income Taxes and Minority Interest	159,527	48,286	299,283	426,820
Income tax expense	53,261	26,700	102,512	167,938
Income Before Minority Interest	106,266	21,586	196,771	258,882
Minority share of income, net of tax	(18,509)	(30,213)	(35,527)	(48,184)
Net Income (Loss)	87,757	(8,627)	161,244	210,698
Preferred dividend requirement	(13)	(13)	(26)	(26)
Net Income (Loss) Available To Common	\$ 87,744	\$ (8,640)	\$ 161,218	\$ 210,672
Basic Weighted Average Shares Outstanding	116,267	117,031	116,919	116,935
Basic Earnings (Loss) Per Share (Note 7)	\$ 0.75	\$ (0.07)	\$ 1.38	\$ 1.80
Diluted Weighted Average Shares Outstanding	116,814	117,031	117,500	118,432
Diluted Earnings (Loss) Per Share (Note 7)	\$ 0.75	\$ (0.08)	\$ 1.37	\$ 1.76
Dividends Per Share	\$ 0.1025	\$ 0.0975	\$ 0.2050	\$ 0.195

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

Table of Contents

Telephone and Data Systems, Inc.

Consolidated Statements of Cash FlowsUnaudited

	Six Months Ended June 30,	
	2008	2007
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income	\$ 161,244	\$ 210,698
Add (Deduct) adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	374,184	375,701
Bad debts expense	36,806	26,991
Stock-based compensation expense	9,022	10,879
Deferred income taxes	(316,269)	(61,814)
(Gain) loss on investments and financial instruments	402	(35,671)
Equity in earnings of unconsolidated entities	(44,379)	(47,571)
Distributions from unconsolidated entities	45,810	43,435
Minority share of income	35,527	48,184
Loss on asset disposals, net	10,090	6,137
Noncash interest expense	7,930	10,635
Other noncash expense	247	1,788
Excess tax benefit from stock awards	(1,706)	(17,598)
Other operating activities	(2,350)	(5,000)
Changes in assets and liabilities		
Change in accounts receivable	(59,440)	(43,884)
Change in inventory	(20,830)	(1,213)
Change in accounts payable	(4,171)	(5,792)
Change in customer deposits and deferred revenues	10,303	19,469
Change in accrued taxes	304,231	128,672
Change in accrued interest	(3,780)	(712)
Change in other assets and liabilities	(47,432)	(44,784)
	495,439	618,550
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(299,061)	(304,559)
Cash paid for acquisitions	(334,350)	(20,569)
Cash received from divestitures	6,838	4,277
Proceeds from sale of investments	226,644	10,547
Cash paid to settle derivative liabilities	(17,404)	
Other investing activities	(934)	(242)
	(418,267)	(310,546)
Cash Flows from Financing Activities		
Issuance of notes payable	100,000	25,000
Issuance of long-term debt		2,857
Repayment of notes payable	(50,000)	(60,000)
Repayment of variable prepaid forward contracts	(47,357)	
Repayment of long-term debt	(6,442)	(1,679)
TDS Common Shares and Special Common Shares reissued for benefit plans, net of tax payments	1,494	74,339

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U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	(1,878)		9,223
Excess tax benefit from stock awards	1,706		17,598
Repurchase of TDS Special Common Shares	(83,013)		(7,036)
Repurchase of U.S. Cellular Common Shares	(14,516)		(49,057)
Dividends paid	(23,922)		(22,798)
Distributions to minority partners	(4,594)		(4,676)
Other financing activities	2,067		(1,869)
	(126,455)		(18,098)
Net Increase (Decrease) in Cash and Cash Equivalents	(49,283)		289,906
Cash and Cash Equivalents -			
Beginning of period		1,174,446	1,013,325
End of period	\$	1,125,163	\$ 1,303,231

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

Table of Contents

Telephone and Data Systems, Inc.

Consolidated Balance SheetsAssets

	June 30, 2008 (Unaudited)	December 31, 2007
	(Dollars in thousands)	
Current Assets		
Cash and cash equivalents	\$ 1,125,163	\$ 1,174,446
Accounts receivable		
Due from customers, less allowances of \$13,015 and \$16,326, respectively	386,661	379,558
Other, principally connecting companies, less allowances of \$5,297 and \$5,297, respectively	156,003	150,863
Marketable equity securities	32,020	1,917,893
Inventory	126,083	115,818
Net deferred income tax asset	22,502	
Prepaid expenses	89,455	77,155
Other current assets	32,612	59,855
	1,970,499	3,875,588
Investments		
Licenses	1,829,014	1,516,629
Goodwill	695,696	679,129
Customer lists, net of accumulated amortization of \$91,180 and \$84,190, respectively	29,069	25,851
Investments in unconsolidated entities	209,053	206,418
Other investments	11,032	11,509
	2,773,864	2,439,536
Property, Plant and Equipment		
In service and under construction	8,348,380	8,064,229
Less accumulated depreciation	4,863,167	4,539,127
	3,485,213	3,525,102
Other Assets and Deferred Charges		
	51,910	53,917
Total Assets	\$ 8,281,486	\$ 9,894,143

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

Table of Contents**Telephone and Data Systems, Inc.****Consolidated Balance Sheets****Liabilities and Stockholders Equity**

	June 30, 2008 (Unaudited)	December 31, 2007
	(Dollars in thousands)	
Current Liabilities		
Current portion of long-term debt	\$ 4,390	\$ 3,860
Forward contracts		1,005,512
Notes payable	50,000	
Accounts payable	307,572	308,882
Customer deposits and deferred revenues	176,574	166,191
Accrued interest	14,676	18,456
Accrued taxes	310,861	40,439
Accrued compensation	61,840	91,703
Derivative liability		711,692
Deferred income tax liability		327,162
Other current liabilities	122,877	125,622
	1,048,790	2,799,519
Deferred Liabilities and Credits		
Net deferred income tax liability	595,420	555,593
Asset retirement obligation	182,495	173,468
Other deferred liabilities and credits	149,726	154,602
	927,641	883,663
Long-Term Debt	1,635,147	1,632,226
Commitments and Contingencies		
Minority Interest	679,938	651,537
Preferred Shares	860	860
Common Stockholders Equity		
Common Shares, par value \$.01 per share; authorized 100,000,000 shares; issued 56,592,000 and 56,581,000 shares, respectively	566	566
Special Common Shares, par value \$.01 per share; authorized 165,000,000 shares; issued 62,951,000 and 62,946,000 shares, respectively	630	629
Series A Common Shares, par value \$.01 per share; authorized 25,000,000 shares; issued and outstanding 6,452,000 and 6,442,000 shares, respectively	65	64
Capital in excess of par value	2,055,677	2,048,110
Treasury Shares at cost:		
Common Shares, 3,398,000 and 3,433,000 shares, respectively	(118,506)	(120,544)
Special Common Shares, 6,702,000 and 4,712,000 shares, respectively	(283,682)	(204,914)
Accumulated other comprehensive income	9,546	511,776
Retained earnings	2,324,814	1,690,651
	3,989,110	3,926,338
Total Liabilities and Stockholders Equity	\$ 8,281,486	\$ 9,894,143

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 (U.S. GAAP). The consolidated financial statements include the accounts of TDS and its majority-owned subsidiaries, including TDS 80.9%-owned wireless telephone subsidiary, United States Cellular Corporation (U.S. Cellular), TDS 100%-owned wireline telephone subsidiary, TDS Telecommunications Corporation (TDS Telecom) and TDS 80%-owned printing and distribution company, Suttle Straus, Inc. In addition, the consolidated financial statements include all entities in which TDS has a variable interest that requires TDS to absorb a majority of the entity's expected gains or losses, or both. All material intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the 2008 financial statement 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 note disclosures normally included in financial statements prepared in accordance with U.S. 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. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in TDS Annual Report on Form 10-K for the year ended December 31, 2007 (Form 10-K).

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring items unless otherwise disclosed) necessary to present fairly the financial position as of June 30, 2008 and December 31, 2007, the results of operations for the three and six months ended June 30, 2008 and 2007, and the cash flows for the six months ended June 30, 2008 and 2007. The results of operations for the three and six months ended June 30, 2008 and cash flows for the six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the full year.

2.