

TELEPHONE & DATA SYSTEMS INC /DE/  
Form 424B5  
November 26, 2001

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Filed Pursuant to Rule 424(b)(5)  
Registration No. 333-71632

**SUBJECT TO COMPLETION, DATED NOVEMBER 26, 2001**

**PRELIMINARY PROSPECTUS SUPPLEMENT**  
**(To Prospectus Dated November 26, 2001)**

\$

**TELEPHONE AND DATA SYSTEMS, INC.**  
**% Series A Notes due 2041**

We are offering \$ \_\_\_\_\_ of % Series A Notes due \_\_\_\_\_, 2041. The Notes will be our senior obligations and will rank on a parity with all of our existing and future unsecured and unsubordinated indebtedness, except as described herein. We will pay interest on the Notes on \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ of each year. The first such payment will be on \_\_\_\_\_, 2002. We may redeem the Notes, in whole or in part, at any time on and after \_\_\_\_\_, 2006 at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. The Notes will be issued in minimum denominations of \$25 and integral multiples thereof.

We intend to list the Notes on the New York Stock Exchange and expect trading in the Notes on the New York Stock Exchange to begin within 30 days after the original issue date. The Notes are expected to trade "flat," meaning that purchasers will not pay and sellers will not receive any accrued and unpaid interest on the Notes that is not included in the trading price.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the related prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	<u>Per Note</u>	<u>Total</u>
Public Offering Price	100.00%	\$
Underwriting Discount	%	\$
Proceeds to TDS (before expenses)	%	\$

The public offering price set forth above does not include accrued interest, if any. Interest on the Notes will accrue from \_\_\_\_\_, 2001 and must be paid by the purchaser if the Notes are delivered after \_\_\_\_\_, 2001.

We have granted the underwriters an option to purchase up to an additional \$ \_\_\_\_\_ aggregate principal amount of Notes solely to cover over-allotments.

The underwriters are severally underwriting the Notes being offered. The underwriters expect to deliver the Notes in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on \_\_\_\_\_, 2001.

**Joint Book-Running Managers**

**Merrill Lynch & Co.**

, 2001

**Salomon Smith Barney**

**You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.**

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*In this prospectus supplement, "TDS," the "Company," "we," "us" and "our" refer to Telephone and Data Systems, Inc.*

**ALTERNATIVE SETTLEMENT DATE**

It is expected that delivery of the Notes will be made on or about the date specified on the cover page of this prospectus supplement, which will be the fifth business day following the date of this prospectus supplement. Under Rule 15c6-1 of the SEC under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, the purchasers who wish to trade Notes on the date of this prospectus supplement or the next succeeding business day will be required to specify an alternate settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of Notes who wish to trade Notes on the date of this prospectus supplement or the next succeeding business day should

consult their own advisors.

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### THE OFFERING

Issuer	Telephone and Data Systems, Inc.
Securities Offered	\$ of % Series A Notes due , 2041 (the "Notes").
Maturity	The Notes will mature on , 2041.
Interest Payment Dates	, , and , beginning , 2002.
Optional Redemption	We may redeem the Notes, in whole or in part, at any time on and after , 2006 at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. We are not required to establish a sinking fund to retire the Notes prior to maturity.
Ranking	The Notes are unsecured and unsubordinated obligations and will rank on a parity with all of our existing and future unsecured and unsubordinated indebtedness. However, in certain circumstances the Notes may become effectively subordinated to the claims of the holders of certain other senior notes of the Company, of which approximately \$300 million are currently outstanding. See "Certain Covenants of TDS."
Use of Proceeds	We expect to use the estimated \$ million in net proceeds from this offering, after deducting the underwriting discounts and estimated offering expenses that we will have paid, to repay a portion of our outstanding short-term debt and for other corporate purposes, which may include acquisitions. See "Use of Proceeds."

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### TDS

TDS is a diversified telecommunications service company with wireless telephone and wireline telephone operations. Our business development strategy is to expand our existing operations through internal growth and acquisitions.

United States Cellular Corporation, an over 80%-owned subsidiary of TDS, operates and invests in wireless telephone companies and properties.

TDS Telecommunications Corporation, a wholly-owned subsidiary of TDS, operates wireline telephone companies.

TDS is a Delaware corporation that is the successor to Telephone and Data Systems, Inc., an Iowa corporation. In 1998, the Iowa corporation was merged with and into TDS, with TDS surviving the merger as a Delaware corporation. TDS's corporate headquarters are located at 30 N. LaSalle, Suite 4000, Chicago, Illinois 60602, and its telephone number is (312) 630-1900.

### USE OF PROCEEDS

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The net proceeds to be received by us from the offering, after deducting underwriting discounts and estimated expenses, are estimated to be approximately \$ . We expect to use the net proceeds from the offering to repay a portion of our outstanding short-term debt and for other corporate purposes, which may include acquisitions. Until the proceeds are used for these purposes, we may deposit them in interest-bearing accounts or invest them in short-term investment securities.

### DESCRIPTION OF THE NOTES

#### General

We provide information to you about the Notes in two separate documents:

the accompanying prospectus and

this prospectus supplement.

The following statements about the Notes are summaries and are subject to, and qualified in their entirety by reference to, the prospectus and the Indenture referred to in the prospectus. See "Description of Debt Securities" in the prospectus for additional information concerning the Notes and the Indenture. The following statements, therefore, do not contain all the information that may be important to you. Not all the defined terms used in this prospectus supplement are defined in this prospectus supplement. You should refer to the prospectus or Indenture for the definitions of certain terms.

Subject to the discussion in this prospectus supplement, the Notes

will be issued under the Indenture, dated as of November 1, 2001, as amended or supplemented from time to time, between TDS and BNY Midwest Trust Company,

will be our unsecured and unsubordinated obligations,

will rank equally and ratably with all of our other existing and future unsecured and unsubordinated indebtedness,

will mature on , 2041,

will be issued in minimum denominations of \$25 and integral multiples thereof,

will be redeemable at our option, in whole or in part, at any time on and after, , 2006 at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date, and

are expected to be listed on the New York Stock Exchange.

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Because the Company is a holding company which conducts substantially all of its operations through subsidiaries, the right of the Company, and hence the right of creditors of the Company (including the holders of the Notes), to participate in any distribution of the assets of any subsidiary upon its liquidation or reorganization or otherwise is necessarily subject to the prior claims of creditors of the subsidiary, except to the extent that claims of the Company itself as a creditor of the subsidiary may be recognized.

#### Quarterly Payments

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Interest on the Notes will accrue from , 2001 at a rate of % per annum and will be payable initially on , 2002 and thereafter quarterly on , , and of each year (each an "Interest Payment Date"). On an Interest Payment Date, interest will be paid to the persons in whose names the Notes were registered as of the record date. With respect to any Interest Payment Date, while the Notes remain in book-entry form the record date will be one Business Day prior to the relevant Interest Payment Date.

The amount of interest payable for any period will be computed on the basis of twelve 30-day months and a 360-day year. The amount of interest payable for any period shorter than a full quarterly interest period will be computed on the basis of the number of days elapsed in a 90-day quarter of three 30-day months. If any Interest Payment Date falls on a Saturday, Sunday, legal holiday or a day on which banking institutions in the City of New York are authorized by law to close, then payment of interest will be made on the next succeeding business day and no additional interest will accrue because of the delayed payment.

### **Redemption and Repayment**

The Notes will be redeemable at our option, in whole or in part, at any time on and after , 2006, upon not less than 30 nor more than 60 days notice, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. Additionally, we may at any time repurchase Notes at any price in the open market and may hold, resell or surrender such Notes to the Trustee for cancellation. You will not have the right to require us to repay Notes prior to maturity. The Notes are not subject to any sinking fund provision.

### **Additional Event of Default**

In addition to the Events of Default described in the prospectus, the terms of the Notes provide the following circumstance will be an Event of Default:

an event of default occurs under any instrument under which there is outstanding, or by which there may be secured or evidenced, any indebtedness of TDS for money borrowed, other than non-recourse indebtedness, which results in acceleration of, or non-payment at maturity, after giving effect to any applicable grace period, of such indebtedness in an aggregate amount exceeding 2% of TDS's Consolidated Assets, and

TDS shall have failed to cure such default or to discharge such indebtedness within ten days after notice thereof to TDS by the Trustee or to TDS and the Trustee by the Holders of at least 25% in aggregate principal amount of the Notes then Outstanding.

Notwithstanding the foregoing, no such Event of Default will exist as long as TDS is contesting any such default or acceleration in good faith and by appropriate proceedings.

### **Certain Covenants of TDS**

Under the Supplemental Indenture establishing the Notes, TDS has agreed that it will not engage in certain transactions, as described below. Certain capitalized terms used below and in such Supplemental Indenture, not including terms defined in the Indenture, are defined at the end of this section.

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*Limitation on Secured Debt.* TDS will not create or incur any Secured Debt without in either case effectively providing that the Notes, together with, if TDS will so determine, any other Debt of or guaranteed by TDS ranking equally with the Notes, will be secured equally and ratably with or prior to such Secured Debt, with certain stated exceptions.

These exceptions permit:

1. Secured Debt on acquired property, including Secured Debt:
  - a. in respect of Liens on property existing at the time such property is acquired by TDS,

- b. in respect of Liens created upon or within 270 days following the acquisition or construction of property, including any improvements to existing property, to secure the payment of all or part of the purchase price thereof, or
- c. incurred by TDS prior to, at the time of or within 270 days following the acquisition of property which is subject to a related Lien, which Secured Debt is incurred for the purpose of financing all or part of the purchase price thereof.

In general, this exception applies only to Liens on acquired property, and does not apply to Liens on any other property then owned by TDS.

2. Secured Debt in respect of Liens on acquired property of a Person:

- a. existing at the time such Person is merged into or consolidated with TDS or at the time of a sale, lease or other disposition of the properties of a Person as an entirety or substantially as an entirety to TDS,
- b. resulting from such merger, consolidation, sale, lease or disposition by virtue of any Lien on property granted by TDS prior to and unrelated to such merger, consolidation, sale, lease or disposition which applies to after-acquired property of TDS, or
- c. resulting from such merger, consolidation, sale, lease or disposition pursuant to a Lien or contractual provision granted or entered into by such Person prior to such merger, consolidation, sale, lease or disposition, and not at the request of TDS.

Any such Lien referred to in clause a does not apply to any property of TDS other than the property subject thereto at the time such Person or properties were acquired and any such Lien referred to in clause b or c does not apply to any property of TDS other than the property so acquired.

3. Liens existing at the date of the Supplemental Indenture.

4. Liens in favor of a government or governmental entity to secure partial progress, advance or other payments, or other obligations, or to secure any Debt incurred for the purpose of financing all or any part of the cost of acquiring, constructing or improving the property subject to such Lien.

5. Liens arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation, which Lien is required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege, franchise, license or permit.

6. Liens for taxes, assessments or governmental charges or levies not yet delinquent or governmental charges or levies already delinquent, the validity of which charge or levy is being contested in good faith and for which any reserves required in accordance with generally accepted accounting principles have been established.

7. Liens, including judgment liens, arising in connection with legal proceedings so long as such proceeding are being contested in good faith and, in the case of judgement liens, execution

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thereon is stayed and for which any reserves required in accordance with generally accepted accounting principles have been established.

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8. Liens on equity interests of TDS or any subsidiary of TDS in Deutsche Telekom AG, Rural Cellular Corporation, Illuminet Holdings, Inc., Vodafone plc, successors thereto or in any other Person that TDS does not Control.
9. Liens upon or involving any property or assets now owned or from time to time hereafter acquired by U.S. Cellular or any of its subsidiaries related in any way to the ownership by U.S. Cellular or by any of its subsidiaries of wireless telecommunications towers, including, but not limited to, tower structures, land on which towers are located, other real estate associated with such towers, leases for towers or for tower sites, subleases, licenses, co-location arrangements, easements and all other real property and other tangible or intangible assets related thereto.
10. Liens securing indebtedness of TDS or of any of its Subsidiaries to the Rural Electrification Administration, Rural Utility Service, Rural Telephone Bank or the Rural Telephone Finance Cooperative.
11. Liens incurred and deposits made in the ordinary course of business to secure surety and appeal bonds, leases, return-on-money bonds and other similar obligations, exclusive of obligations for the payment of borrowed money.
12. Secured Debt secured by any extension, renewals or replacement of any Liens referred to in the foregoing clauses 1 to 11, inclusive, provided that
  - a. the principal amount of Secured Debt secured thereby does not exceed the principal amount of such Debt immediately prior to such extension, renewal or replacement, and
  - b. any Lien created in connection therewith is limited to all or part of the property, plus improvements to such property, which secured the Secured Debt so extended, renewed or replaced.

The foregoing restrictions do not apply if, immediately after the incurrence of such Secured Debt, giving effect to the application of the proceeds therefrom,

- a. the aggregate principal amount of Secured Debt, other than Secured Debt described in clauses 1 to 11, above, plus
- b. the aggregate amount of Capitalized Rent in respect of Sale and Leaseback Transactions, other than Sale and Leaseback Transactions the proceeds of which are or will be applied as described in clauses 1 to 6 inclusive, under "Limitation on Sale and Leaseback Transactions" below,

would not exceed 20% of Consolidated Assets.

*Limitation on Sale and Leaseback Transactions.* TDS will not enter into any Sale and Leaseback Transaction unless immediately after the completion of such Sale and Leaseback Transaction, giving effect to the application of the proceeds therefrom,

- a. the aggregate amount of Capitalized Rent in respect of Sale and Leaseback Transactions, other than Sale and Leaseback Transactions described in clauses 1 to 6, inclusive, of the immediately succeeding paragraph, plus
- b. the aggregate principal amount of Secured Debt, other than Secured Debt described in clauses 1 to 12, inclusive, under "Limitation on Secured Debt" above, would not exceed 20% of Consolidated Assets.

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The foregoing restrictions do not apply to, and there will be excluded in computing the aggregate amount of Capitalized Rent for the purpose of such restrictions, the following Sales and Leaseback Transactions:

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1. Sale and Leaseback Transactions entered into to finance the payment of all or any part of the purchase price of property acquired or constructed by TDS, including any improvements to existing property, or entered into prior to, at the time of or within 270 days after the acquisition or construction of such property, which Sale and Leaseback Transaction is entered into for the purpose of financing all or part of the purchase or construction price thereof.

In general, the foregoing exception only applies to the property acquired by TDS and does not apply to any property transferred by TDS to a subsidiary of TDS in contemplation of or in connection with such Sale and Leaseback Transaction.
2. Sale and Leaseback Transactions involving property of a Person existing at the time such Person is merged into or consolidated with TDS or at the time of a sale, lease or other disposition of the properties of a Person as an entirety or substantially as an entirety to TDS.
3. Sale and Leaseback Transactions in which the lessor is a government of governmental entity and which Sale and Leaseback Transaction is entered into to secure partial progress, advance or other payments, or other obligations, pursuant to any contract or statute or to secure any Debt incurred for the purpose of financing all or any part of the cost of constructing or improving the property subject to such Sale and Leaseback Transaction.
4. Sale and Leaseback Transaction involving any property or assets now owned or from time to time hereafter acquired by U.S. Cellular or any of its subsidiaries related in any way to the ownership by U.S. Cellular or by any of its subsidiaries of wireless telecommunications towers, including, but not limited to, tower structures, land on which towers are located, other real estate associated with such towers, leases for towers or for tower sites, subleases, licenses, collocation arrangements, easements and all other real property and other tangible or intangible assets related thereto.
5. Sale and Leaseback Transactions the net proceeds of which are at least equal to the fair value, as determined by the Board of Directors of TDS, of the property leased pursuant to such Sale and Leaseback Transaction, so long as within 270 days of the effective date of such Sale and Leaseback Transaction, TDS applies, or irrevocably commits to an escrow account, an amount equal to the net proceeds of such Sale and Leaseback Transaction to either:
  - a. the purchase of other property having a fair value at least equal to the fair value of the property leased in such Sale and Leaseback Transaction and having a similar utility and function, or
  - b. the retirement or repayment, other than any mandatory retirement or repayment at maturity, of
    - i. Securities,
    - ii. other Funded Debt of TDS which ranks prior to or on a parity with the Securities, or
    - iii. indebtedness of any subsidiary of TDS maturing by its terms more than one year from its date of issuance, notwithstanding that any portion of such indebtedness is included in current liabilities, or preferred stock of any subsidiary of TDS, other than any such indebtedness owed to or preferred stock owned by TDS or any subsidiary of TDS.

In lieu of applying an amount equivalent to all or any part of such net proceeds to such retirement or repayment or committing such an amount to an escrow account for such purpose, TDS may deliver to the Trustee Outstanding Securities and thereby reduce the amount to be applied pursuant to b of this clause 5 by an amount equivalent to the aggregate principal amount of the Securities so delivered.



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Sale and Leaseback Transactions involving extensions, renewals or replacements in whole or in part of a lease pursuant to a Sale and Leaseback Transaction referred to in the foregoing clauses 1 to 5, inclusive.

Any such lease extension, renewal or replacement will be limited to all or any part of the same property leased under the lease so extended, renewed or replaced, plus improvements to such property.

### *Certain Definitions.*

"Capital Stock" means and includes any and all shares, interests, participations or other equivalents, however designated, of ownership in a corporation or other Person.

"Capitalized Rent" means the present value, discounted semi-annually at a discount rate equal to the weighted average rate of interest borne by the Notes then Outstanding, of the total net amount of rent payable for the remaining term of any lease of property by TDS, including any period for which such lease has been extended; except that no such rental obligation will be deemed to be Capitalized Rent unless the lease resulted from a Sale and Leaseback Transaction. The total net amount of rent payable under any lease for any period will be the total amount of the rent payable by the lessee with respect to such period but will not include amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water rates, sewer rates and similar charges.

"Consolidated Assets" means the gross assets, as defined by generally accepted accounting principles, of TDS and its Subsidiaries determined on a consolidated basis at the end of TDS's then most recently reported fiscal year or quarter, as the case may be, including minority interests of Subsidiaries.

"Debt" means with respect to a Person all obligations of such Person for borrowed money and all such obligations of any other Person for borrowed money guaranteed by such Person.

"Funded Debt" means any Debt maturing by its terms more than one year from its date of issuance, notwithstanding that any portion of such Debt is included in current liabilities.

"Lien" means any mortgage, pledge, security interest, lien, charge or other encumbrance.

"property" means any directly-held interest of a Person in any kind of property or asset whether real, personal or mixed and whether tangible or intangible, and includes Capital Stock of a subsidiary or other Person.

"Sale and Leaseback Transaction" means any arrangement with any Person other than a Tax Consolidated Subsidiary providing for the leasing, as lessee, by TDS of any property, except for temporary leases for a term, including any renewal thereof, of not more than three years, provided that any such temporary lease may be for a term of up to five years if

- a. the Board of Directors of TDS reasonably finds such term to be in the best interest of TDS and
- b. the primary purpose of the transaction of which such lease is a part is not to provide funds to or financing for TDS, which property has been or is to be sold or transferred by TDS
  - i. to any subsidiary of TDS in contemplation of or in connection with such arrangement or
  - ii. to such other Person.

"Secured Debt" means Debt of TDS secured by any Lien on property, including Capital Stock or indebtedness of subsidiaries of TDS, owned by TDS.

"Subsidiary" means a Person which is consolidated with TDS in accordance with generally accepted accounting principles.

"Tax Consolidated Subsidiary" means a subsidiary of TDS with which, at the time a Sale and Leaseback Transaction is entered into by TDS, TDS would be entitled to file a consolidated federal income tax return.

The Company currently has approximately \$300 million of senior notes outstanding, which we refer to as the outstanding notes, which have the benefit of covenants limiting secured debt and sale and leaseback transactions similar to, but more restrictive than, the limitations on secured debt and sale and leaseback transactions described below. In the event the Company incurs secured debt or enters into a sale and leaseback transaction that is excepted from the covenant protection provided to the holders of the Notes but not the holders of the outstanding notes, the Notes may become effectively subordinated to the claims of the holders of the outstanding notes up to the value of the assets subject to the lien or sale and leaseback transaction.

### **Trading Characteristics**

We expect the Notes to trade at a price that takes into account the value, if any, of accrued and unpaid interest. This means that purchasers will not pay, and sellers will not receive, accrued and unpaid interest on the Notes that is not included in their trading price. Any portion of the trading price of a note that is attributable to accrued and unpaid interest will be treated as a payment of interest for U.S. federal income tax purposes and will not be treated as part of the amount realized for purposes of determining gain or loss on the disposition of the Notes. See generally "Material Federal Income Tax Consequences" below.

### **Book-Entry Only**

The Notes will be issued only in book-entry form through the facilities of The Depository Trust Company (the "Depository") and will be in denominations of \$25 and integral multiples thereof. The Notes will be represented by a Global Security ("Global Security") and will be registered in the name of a nominee of the Depository. The Depository has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of section 17A of the Securities Exchange Act of 1934, as amended. The Depository holds securities that its participants deposit with the Depository. The Depository also facilitates the settlement among its participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in its participants' accounts. By doing so, the Depository eliminates the need for physical movement of securities. The Depository's participants include securities brokers and dealers (including the underwriters), banks, trust companies, clearing corporations, and certain other organizations, some of which own the Depository. The Depository is also owned by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the Depository's system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Persons who are not participants may beneficially own securities held by the Depository only through participants. The rules applicable to the Depository and its participants are on file with the Securities and Exchange Commission.

Upon the issuance of the Global Security, the Depository will credit its participants' accounts on its book-entry registration and transfer system with their respective principal amounts of the Notes represented by such Global Security. The underwriters designate which participants' accounts will be credited. The only persons who may own beneficial interests in the Global Security will be the Depository's participants or persons that hold interests through such participants. Ownership of beneficial interests in such Global Security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the Depository or its nominee (with respect to interests of its participants), and on the records of its participants (with respect to interests of persons other than such participants). The laws of some states may require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and laws may impair your ability to transfer your interest in the Notes.

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So long as the Depository or its nominee is the registered owner of the Global Security, the Depository or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Security for all purposes under the Indenture. Except as provided below or as we may otherwise agree in our sole discretion, owners of beneficial interests in a Global Security will not be entitled to have Notes represented by such Global Security registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the owners or holders thereof under the Indenture.

Principal and interest payments on Notes registered in the name of the Depository or its nominee will be made to the Depository or its nominee, as the case may be, as the registered owner of the Global Security representing such Notes. None of TDS, the Trustee, any paying agent or the registrar for the Notes will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in such Global Security for such Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

We expect that the Depository for the Notes or its nominee, upon receipt of any payment of principal or interest, will credit immediately its participants accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Security for such Notes as shown on the records of the Depository or its nominee. We also expect that payments by such participants to owners of beneficial interests in such Global Security held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name" (i.e., the name of a securities broker or dealer). Such payments will be the responsibility of such participants.

#### **Transfer Agent and Paying Agent**

BNY Midwest Trust Company is the transfer agent and paying agent for the Notes. Payment of principal and interest will be payable, and the Notes, if in definitive form, will be transferable, at the office of the paying agent. We may, however, pay interest by wire transfer or check mailed to registered holders of the Notes. At the maturity of the Notes, the principal, together with accrued interest thereon, will be payable in immediately available funds upon surrender of such Notes at the office of the Trustee. For so long as the Notes are represented by Global Securities, we will make payments of interest to the Depository or its nominees, as the case may be, which will distribute payments to its beneficial holders in accordance with its customary procedures.

### **MATERIAL FEDERAL INCOME TAX CONSEQUENCES**

The following is a summary of the material United States federal income tax consequences of the purchase, ownership and disposition of the Notes. It deals only with original purchasers that acquire and hold the Notes as capital assets and does not deal with special situations, such as those of dealers in securities or currencies, financial institutions, life insurance companies, persons holding the Notes as a part of a hedging or conversion transaction or a straddle, or investors whose "functional currency" is not the United States dollar. This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), administrative pronouncements, judicial decisions and Treasury Regulations, changes to any of which subsequent to the date of this prospectus supplement may affect the tax consequences described herein, possibly with retroactive effect. Persons considering the purchase of Notes should consult their own tax advisors concerning the federal income tax consequences of holding the Notes in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.

As used herein, the term "U.S. Holder" means a beneficial owner of a Note who or which is, for United States federal income tax purposes

a citizen or resident of the United States

a corporation or partnership created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), or

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an estate or trust treated as a United States person under section 7701(a)(30) of the Code.

The term "Non-U.S. Holder" means any beneficial owner of a Note that is not a U.S. Holder.

#### **U.S. Holders**

##### **Interest**

Interest on the Notes will be taxed to a U.S. Holder as ordinary interest income at the time it accrues or is received, in accordance with the U.S. Holder's regular method of accounting for federal income tax purposes.

##### **Disposition of Notes**

A U.S. Holder who disposes of a Note by sale, exchange for other property, or payment by us, will recognize taxable gain or loss equal to the difference between the amount realized on the sale or other disposition (not including any amount attributable to accrued but unpaid interest) and the U.S. Holder's adjusted tax basis in the Note. Any amount attributable to accrued but unpaid interest will be treated as a payment of interest and taxed in the manner described above under "Interest". In general, the U.S. Holder's adjusted tax basis in a Note will be equal to the initial purchase price.

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Gain or loss realized on the sale, exchange or retirement of a Note generally will be capital gain or loss, and will be long-term capital gain or loss if at the time of sale, exchange or retirement the Note has been held for more than one year. For individuals, the excess of net long-term capital gains over net short-term capital losses generally is taxed at a lower rate than ordinary income. The distinction between capital gain or loss and ordinary income or loss is also relevant for purposes of, among other things, limitations on the deductibility of capital losses.

### Non-U.S. Holders

Subject to the discussion below concerning backup withholding, payments of principal of, and interest on, the Notes by us or any paying agent to a Non-U.S. Holder generally will not be subject to the withholding of federal income tax, provided that, in the case of interest,

the Non-U.S. Holder does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote,

the Non-U.S. Holder is not, for federal income tax purposes, a controlled foreign corporation related, directly or indirectly, to us through stock ownership,

the Non-U.S. Holder is not a bank receiving interest described in section 881(c)(3)(A) of the Code, and

the certification requirements under section 871(h) or section 881(c) of the Code and Treasury Regulations thereunder, summarized below, are met.

The Internal Revenue Service has identified lengthy maturity, together with other factors, as tending to show that an instrument denominated as debt should be treated as other than debt for federal income tax purposes. The Company does not believe that the Internal Revenue Service would contend that the Notes are not debt, because no such other factors are present. If, notwithstanding this belief, the Internal Revenue Service were to contend successfully that the Notes are not debt, interest on the Notes generally would be treated as dividends, hence subject to withholding of federal income tax at the rate of 30%, which rate could be reduced by applicable tax treaty.

A Non-U.S. Holder generally will not be subject to federal income tax on gain realized on the sale, exchange or other disposition of a Note unless

such Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition, and certain conditions are met, or

such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States.

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Sections 871(h) and 881(c) of the Code and Treasury Regulations thereunder require that, in order to obtain the exemption from withholding described above,

the beneficial owner of the Note must certify, under penalties of perjury, to us or the paying agent, as the case may be, that such owner is a Non-U.S. Holder and must provide its name and address, and United States taxpayer identification number, if any,

a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business and holds the Note on behalf of the beneficial owner must certify, under penalties of perjury, to us or the paying agent, as the case may be, that it or another such financial institution between it and the beneficial owner has received such certification from the beneficial owner and must furnish us or the paying agent, as the case may be, with a copy thereof, or

the Non-U.S. Holder must provide such certification to a "qualified intermediary" or a "withholding foreign partnership" and certain other conditions must be met.

A Non-U.S. Holder may give the certification described above on IRS Form W-8BEN, which generally is effective for the remainder of the year of signature plus three full calendar years, unless a change in circumstances makes any information on the form incorrect. Special rules

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apply to Non-U.S. Holders that are foreign partnerships. In general, the foreign partnership will be required to provide a properly executed IRS Form W-8IMY and attach thereto an appropriate certification by each partner.

If a Non-U.S. Holder is engaged in a trade or business in the United States, and if interest on a Note, or gain realized on the sale, exchange or other disposition of a Note, is effectively connected with the conduct of such trade or business, the Non-U.S. Holder, although exempt from the withholding of federal income tax, will generally be subject to regular federal income tax on such interest or gain in the same manner as if he or she were a U.S. Holder. In lieu of the certificate described in the preceding paragraph, such a Non-U.S. Holder will be required to provide us or the paying agent, as the case may be, with a properly executed IRS Form W-8ECI in order to claim an exemption from withholding. In addition, if such Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30%, or such lower rate as may be provided by an applicable treaty, of its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

### Backup Withholding and Information Reporting

Information reporting requirements apply to interest and principal payments made to, and to the proceeds of sales before maturity by, certain noncorporate U.S. Holders. In addition, backup withholding applies to a noncorporate U.S. Holder if

the U.S. Holder fails to furnish his or her taxpayer identification number, which, for an individual, would be his or her Social Security Number, to the payor in the manner required,

the U.S. Holder furnishes an incorrect taxpayer identification number and the payor is so notified by the Internal Revenue Service,

the payor is notified by the Internal Revenue Service that the U.S. Holder has failed properly to report payments of interest and dividends, or

in certain circumstances, the U.S. Holder fails to certify, under penalties of perjury, that he or she has not been notified by the Internal Revenue Service that it is subject to backup withholding for failure properly to report interest and dividend payments.

The current rate of backup withholding is 30.5% of the amount paid, which is scheduled to be reduced in increments to 28% in 2006. Backup withholding does not apply with respect to payments made to certain exempt recipients, such as corporations, within the meaning of section 7701(a) of the Code, and tax-exempt organizations.

Backup withholding and information reporting will not apply to

payments to a Non-U.S. Holder of principal of, or interest on, a Note, or

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payments to a Non-U.S. Holder on the sale, exchange or other disposition of a Note,

in each case if the Non-U.S. Holder establishes an exemption from the withholding of federal income tax. In addition, unless the payor has actual knowledge that the payee is a U.S. Holder, backup withholding will not apply to

payments of principal of, or interest on, a Note made outside the United States to certain offshore accounts, or

payments on the sale, exchange, redemption, retirement or other disposition of a Note effected outside the United States.

However, information reporting (but not backup withholding) may apply to payments made by a payor outside the United States, and payments on the sale, exchange, redemption, retirement or other disposition of a Note effected outside the United States, if payment is made by a payor that is, for federal income tax purposes,

a United States person,

a controlled foreign corporation,

a United States branch of a foreign bank or foreign insurance company,

a foreign partnership controlled by United States persons or engaged in a United States trade or business, or

a foreign person, 50% or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period,

unless such payor has in its records documentary evidence that the beneficial owner is not a U.S. Holder and certain other conditions are met or the beneficial owner otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against the U.S. Holder's or Non-U.S. Holder's federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

**THE UNITED STATES FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. PROSPECTIVE PURCHASERS OF THE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE OWNERSHIP AND DISPOSITION OF NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN UNITED STATES OR OTHER TAX LAWS.**

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#### UNDERWRITING

Merrill Lynch, Pierce Fenner & Smith Incorporated and Salomon Smith Barney Inc. are acting as representatives of the underwriters named below.

Subject to the terms and conditions in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the principal amount of Notes set forth opposite the underwriter's name.

Underwriters	Principal Amount of Notes
Merrill Lynch, Pierce, Fenner & Smith Incorporated	\$
Salomon Smith Barney Inc.	
<b>Total</b>	<b>\$</b>

The underwriting agreement provides that the obligations of the underwriters to purchase the Notes included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the Notes if they purchase any of the Notes.

The underwriters propose to offer some of the Notes directly to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the Notes to dealers at the public offering price less a concession not to exceed \$ per \$25 note. The underwriters may allow, and dealers may reallow, a concession not to exceed \$ per \$25 note on sales to other dealers. After the initial offering of the Notes to the public, the representatives may change the public offering price and concessions.

The amount of the underwriting discounts and commissions (expressed as a percentage of the principal amount of the Notes) to be paid by us to the underwriters in connection with this offering is %.

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Prior to this offering, there has been no public market for the Notes. We intend to list the Notes on the New York Stock Exchange, and we expect trading in the Notes on the New York Stock Exchange to begin within 30 days after the original issue date. In order to meet one of the requirements for listing the Notes, the underwriters will undertake to sell the Notes to a minimum of 400 beneficial holders.

The Notes are a new issue of securities with no established trading market. The underwriters have advised us that they intend to make a market in the Notes but are not obligated to do so and may discontinue market making at any time without notice. Neither we nor the underwriters can assure you that the trading market for the Notes will be liquid.

We have granted the underwriters an option, exercisable until , 2001, to purchase up to an additional \$ aggregate principal amount of Notes, at the public offering price less the underwriting discount set forth on the cover page of this prospectus supplement, solely to cover over-allotments. To the extent the option is exercised, each underwriter will become obligated to purchase approximately the same percentage of the additional Notes as the underwriter purchased in the original offering. If the underwriters' option is exercised in full, the total price to the public would be \$ , the total underwriting discounts and commissions would be \$ and total proceeds, before deducting expenses, to TDS would be \$ .

In connection with this offering, Merrill Lynch, Pierce Fenner & Smith Incorporated or Salomon Smith Barney Inc., on behalf of the underwriters, may purchase and sell Notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing

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transactions. Over-allotment involves syndicate sales of Notes in excess of the principal amount of Notes to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchase of the Notes in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Merrill Lynch, Pierce Fenner & Smith Incorporated or Salomon Smith Barney Inc., in covering syndicate short positions or making stabilizing purchases, repurchase Notes originally sold by that syndicate member.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the New York Stock Exchange, in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our total expenses for this offering will be approximately \$ .

The underwriters have performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business. In addition, certain underwriters or their affiliates may provide credit to us as lenders.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of these liabilities.

It is expected that delivery of the Notes will be made on or about the date specified on the cover page of this prospectus supplement, which will be the fifth business day following the date of this prospectus supplement. Under Rule 15c6-1 of the SEC under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, the purchasers who wish to trade Notes on the date of this prospectus supplement or the next succeeding business day will be required to specify an alternate settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of Notes who wish to trade Notes on the date of this prospectus supplement or the next succeeding business day should consult their own advisors.

### LEGAL MATTERS

The validity of the Notes offered hereby will be passed upon for the Company by Sidley Austin Brown & Wood, Chicago, Illinois, and certain legal matters will be passed upon for the Underwriters by Mayer, Brown & Platt, Chicago, Illinois. The Company is controlled by a voting trust. Walter C.D. Carlson, a trustee and beneficiary of the voting trust and a director of the Company and certain subsidiaries of the Company, Michael G. Hron, the General Counsel and an Assistant Secretary of the Company and certain subsidiaries of the Company, William S. DeCarlo,

the Assistant General Counsel and an Assistant Secretary of the Company and certain subsidiaries of the Company, and Stephen P. Fitzell, the Assistant General Counsel and an Assistant Secretary of certain subsidiaries of the Company, are partners of Sidley Austin Brown & Wood. Mayer, Brown & Platt from time to time acts as counsel in certain matters for the Company. Debora de Hoyos, wife of Walter C. D. Carlson, is a partner of Mayer, Brown & Platt.

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## Telephone and Data Systems, Inc. Debt Securities

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We may use this prospectus from time to time to offer, on a delayed or periodic basis, debt securities consisting of debentures, notes, bonds and/or other evidences of indebtedness. The aggregate initial offering price of all securities will not exceed U.S. \$1,000,000,000 or its equivalent in any other currency or units based on or relating to foreign currencies. We may offer debt securities in one or more series in amounts, at prices and on terms to be determined at the time of sale. The accompanying Prospectus Supplement sets forth the following information about offered securities: the specific designation, aggregate principal amount, currency denomination, maturity, interest rate which may be fixed or variable, time of payment of interest, if any, any terms for redemption at our option or the holder's option, any terms for sinking fund payments, whether such securities are exchangeable into other securities, the initial public offering price and any other terms of the securities and the offering.

Securities issued under the Indenture described in this Prospectus are expected to be unsecured and to rank *pari passu* with all of our other unsecured and unsubordinated indebtedness. As described in this Prospectus, any subordinated debt securities would be issued under a separate indenture.

The debt securities are expected to be issued only in registered form. All or a portion of the debt securities of any series may be issued to a depository as a global security and may be exchangeable for physical securities only under limited conditions.

We may sell securities to or through underwriters or dealers, and also may sell securities to other purchasers directly or through agents. The accompanying Prospectus Supplement sets forth the names of any underwriters, dealers or agents involved in the sale of the debt securities offered hereby, the principal amounts, if any, to be purchased by underwriters and the compensation of such underwriters, dealers or agents.

Our Common Shares are listed for trading on the American Stock Exchange under the symbol "TDS". The relevant Prospectus Supplement will contain information, if applicable, as to whether the debt securities offered will be listed for trading on the American Stock Exchange or on any other securities exchange or other market.

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**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or has passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense.**

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The date of this Prospectus is November 26, 2001

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### **FORWARD LOOKING STATEMENTS**

This Prospectus and the documents incorporated by reference herein contain statements that are not based on historical fact, including the words "believes," "anticipates," "intends," "expects," and similar words. These statements constitute "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include:

*general economic and business conditions, both nationally and in the regions in which TDS operates,*

*technology changes,*

*competition,*

*changes in governmental regulations,*

*changes in investments,*

*pending and future litigation,*

*changes in growth in cellular customers, penetration rates, churn rates, roaming rates and the mix of products and services offered in our markets,*

*acquisition/divestiture of properties and/or licenses,*

*changes in growth of ILEC and CLEC customers, churn rates and mix of products and services offered in ILEC and CLEC markets and*

*other factors described or incorporated in this Prospectus.*

*Investors are encouraged to consider these and other risks and uncertainties that are discussed in documents filed by TDS with the Securities and Exchange Commission and incorporated by reference herein.*

### WHERE YOU CAN FIND MORE INFORMATION

Our Common Shares are listed for trading on the American Stock Exchange under the symbol "TDS". As a result, we file reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You may inspect and copy such reports, proxy statements and other information at the public reference facilities maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information. Such materials also may be accessed electronically by means of the SEC's web site at <http://www.sec.gov>.

We filed a Registration Statement related to the offering described in this Prospectus. As allowed by SEC rules, this Prospectus does not contain all of the information which you can find in the Registration Statement. You are referred to the Registration Statement and the Exhibits thereto for further information. This document is qualified in its entirety by such other information.

The SEC allows us to "incorporate by reference" information into this Prospectus, which means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this Prospectus, except for any information superseded by information in this Prospectus.

This Prospectus incorporates by reference the documents set forth below that have been previously filed with the SEC. These documents contain important information about our business and finances.

1. TDS's Annual Report on Form 10-K for the year ended December 31, 2000.
2. TDS's Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2001.
3. TDS's Current Reports on Form 8-K filed on January 25, February 2, June 5, June 19 and June 22, 2001.

This Prospectus also incorporates by reference additional documents that may be filed by us with the SEC between the date of this Prospectus and the date our offering is completed.

**You may obtain copies of such documents which are incorporated by reference in this Prospectus (other than exhibits thereto which are not specifically incorporated by reference herein), without charge, upon written or oral request to Investor Relations, Telephone and Data Systems, Inc., 30 N. LaSalle Street, Suite 4000, Chicago, IL 60602, (312) 630-1900. In order to ensure delivery of documents, any request therefor should be made not later than five business days prior to making an investment decision.**

**You should rely only on the information contained or incorporated by reference in this Prospectus. We have not authorized anyone to provide you with information that is different from what is contained in this Prospectus. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date of such Prospectus, and neither the mailing of this Prospectus to shareholders nor the issuance of any securities hereunder shall create any implication to the contrary. This Prospectus does not offer to buy or sell securities in any jurisdiction where it is unlawful to do so.**

### SUMMARY

*This summary highlights selected information from this document and does not contain all of the information that is important to you. You should carefully read this entire document and the documents incorporated by reference in this document. See "Where You Can Find More Information."*

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TDS is a diversified telecommunications service company that provides high-quality telecommunications services to more than four million wireless telephone and wireline telephone customers. TDS's business development strategy is to expand its existing operations through internal growth and acquisitions. The address of TDS is 30 North LaSalle Street, Suite 4000, Chicago, Illinois 60602; and its telephone number is (312) 630-1900.

### The Securities We May Offer

We may offer from time to time, on a delayed or continuous basis, up to \$1,000,000,000 in debt securities consisting of debentures, notes, bonds and/or other evidences of indebtedness. This Prospectus describes the general terms of the debt securities that we may offer under the terms of the Indenture which has been filed as an exhibit to the registration statement of which this Prospectus is a part.

### Rank of Securities

Securities issued under the Indenture described in this Prospectus are expected to be unsecured and to rank *pari passu* with all other unsecured and unsubordinated indebtedness of TDS. Any subordinated debt securities would be issued under a separate indenture which would be filed as an exhibit to a post-effective amendment to the registration statement of which this Prospectus is a part and described in a Prospectus Supplement.

### Designation and Specific Terms of Series of Securities

The accompanying Prospectus Supplement sets forth the following information about offered securities: the specific designation, aggregate principal amount, currency denomination, maturity, interest rate which may be fixed or variable, time of payment of interest, if any, any terms for redemption at our option or the holder's option, any terms for sinking fund payments, whether such securities are exchangeable into other securities, the initial public offering price and any other terms of the securities and the offering.

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## TDS

TDS is a diversified telecommunications service company with wireless telephone and wireline telephone operations. Our business development strategy is to expand our existing operations through internal growth and acquisitions.

United States Cellular Corporation, an over 80%-owned subsidiary of TDS, operates and invests in wireless telephone companies and properties.

TDS Telecommunications Corporation, a wholly-owned subsidiary of TDS, operates wireline telephone companies.

TDS is a Delaware corporation that is the successor to Telephone and Data Systems, Inc., an Iowa corporation. In 1998, the Iowa corporation was merged with and into TDS, with TDS surviving the merger as a Delaware corporation. TDS's corporate headquarters are located at 30 N. LaSalle, Suite 4000, Chicago, Illinois 60602, and its telephone number is (312) 630-1900.

For current selected financial information, cash dividends paid and other information about TDS, see the TDS Annual Report on Form 10-K for the most recent fiscal year, which includes certain portions of the TDS Annual Report to Shareholders, as incorporated by reference herein. See "Where You Can Find More Information" above.

## USE OF PROCEEDS

Unless otherwise indicated in the Prospectus Supplement, the net proceeds to be received by TDS from the sale of debt securities offered by this Prospectus will be used by us principally in connection with our acquisition, construction and development programs, including reduction of short-term debt incurred in connection therewith, and may also be used for working capital, to reduce existing long-term debt, to provide additional investments in our subsidiaries, and for other corporate purposes. Until the proceeds are used for these purposes, we may deposit them in interest-bearing accounts or invest them in short-term investment securities.

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**CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our historical ratios of earnings to fixed charges for each of the years ended December 31, 2000 through 1996 and for the nine months ended September 30, 2001.

Nine Months Ended September 30,	Year Ended December 31,				
2001(1)	2000	1999	1998	1997	1996
(2.53)	3.39	5.27	3.60	2.72	4.05

(1) The dollar amount of the deficiency resulting in a negative ratio is \$388.2 million. In the first nine months of 2001, TDS recognized a pre-tax loss of \$644.9 million as a result of the conversion of its investment in common stock of VoiceStream Wireless Corporation into shares to Deutsche Telekom shares and cash pursuant to a merger of VoiceStream and Deutsche Telekom. This loss was the result of a decline in the market price of VoiceStream common stock between the time TDS acquired such stock on May 4, 2000 and the date of the merger of May 31, 2001. Excluding this amount, the ratio of earnings to fixed charges for the nine months ended September 30, 2001 would be 3.33.

For purposes of calculating this ratio, earnings consist of net income from continuing operations plus income taxes from continuing operations, fixed charges from continuing operations, estimated interest portion of rentals, distributions from minority investments and amortization of non-utility capitalized interest, less equity in undistributed earnings of unconsolidated investments, minority interest in pretax income of subsidiaries that have not incurred fixed charges and non-utility capitalized interest. Fixed charges consist of interest expense, estimated interest portion of rentals and preferred dividend requirements.

**DESCRIPTION OF DEBT SECURITIES**

We expect to issue the debt securities under an Indenture to be entered into between TDS and BNY Midwest Trust Company, as Trustee, the form of which has been filed as an exhibit to the registration statement of which this Prospectus is a part. Any subordinated debt securities would be issued under a separate indenture which would be filed as an exhibit to the registration statement by post-effective amendment and would be described in a Prospectus Supplement. The following is a summary of the material terms of the Indenture relating to unsubordinated debt securities.

The statements contained in this prospectus relating to the Indenture and the debt securities we may issue are summaries and are subject to, and are qualified in their entirety by reference to, all provisions of the Indenture (including those terms made a part of the Indenture by reference to the Trust Indenture Act of 1939) and the other instruments defining the rights of holders of specific debt securities to be filed with the SEC at the time that such debt securities are issued. You should read the Indenture and such other documents for information that may be important to you before you buy any debt securities.

**General**

The debt securities that we may issue under the Indenture include debentures, notes, bonds and other evidences of indebtedness.

The Indenture does not limit the aggregate principal amount of securities, secured or unsecured, which we may issue under the Indenture or otherwise.

We may issue debt securities under the Indenture from time to time in one or more series or tranches thereof, as authorized by a resolution of our board of directors and as set forth in a company order or one or more supplemental indentures creating such series.

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Unless otherwise indicated in the applicable Prospectus Supplement, the Indenture also permits us to increase the principal amount of any series of securities previously issued and to issue such increased principal amount.

The securities may be denominated and payable in foreign currencies or units based on or relating to foreign currencies.

We will describe any special United States federal income tax considerations applicable to the securities in the Prospectus Supplement relating to those securities.

Debt securities issued under the Indenture are expected to be unsecured obligations of TDS and to rank *pari passu* with all other unsecured debt of TDS, except debt that by its terms is subordinated to the unsecured debt of TDS.

However, TDS is a holding company. As a result, the right of TDS, and hence the right of the creditors of TDS, including the holders of securities, to participate in any distribution of the assets of any subsidiary upon its liquidation or reorganization or otherwise is subject to the prior claims of creditors of such subsidiary, except to the extent that claims of TDS as a creditor of such subsidiary may be recognized.

The ability of TDS to make payments of principal and interest on the debt securities will be dependent upon the payment to it by its subsidiaries of dividends, loans or advances. As described in the notes to the TDS financial statements incorporated by reference in this Prospectus, such payments by TDS's regulated telephone company subsidiaries are subject to legal and contractual restrictions, primarily contained in the mortgages granted by certain such subsidiaries to the Rural Utilities Service.

There is no restriction in the Indenture against TDS or its subsidiaries incurring secured or unsecured indebtedness or issuing secured or unsecured securities.

The debt securities will be our direct obligations and may include debentures, notes, bonds and/or other evidences of indebtedness.

The Indenture is subject to, and governed by, the Trust Indenture Act of 1939, as amended.

### **Designation of Terms of Securities**

We will execute a company order and/or a supplemental indenture relating to a particular series of debt securities if and when we issue any debt securities.

We will describe the particular terms of each series of debt securities in a Prospectus Supplement relating to that series.

We can issue these securities in one or more series with the same or various maturities, at par, at a premium, or at a discount.

We will set forth in a Prospectus Supplement relating to any series of debt securities being offered, the aggregate principal amount and the following terms of the debt securities:

the title and designation of such debt securities and series;

any limitations on the aggregate principal amount of the debt securities of any series;

the stated maturity or maturities of such series;

the date or dates from which interest will accrue, the interest payment dates on which such interest will be payable or the manner of determination of such interest payment dates and the record date for the determination of holders to whom interest is payable on any such interest payment date;

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the interest rate or rates, which may be fixed or variable, or method of calculation of such rate or rates, for such series;

the terms, if any, regarding the redemption, purchase or repayment of such series;

whether or not the debt securities of such series will be issued in whole or in part in the form of a global security and, if so, the depository for such global security and the related procedures with respect to transfer and exchange of such global security;

the form of the debt securities of such series;

the maximum annual interest rate, if any, of the debt securities permitted for such series;

whether the debt securities of such series shall be subject to periodic offering;

the currency or currencies, including composite currencies, in which payment of the principal of (and premium, if any) and interest on the debt securities of such series will be payable, if other than dollars;

any other information necessary to complete the debt securities of such series;

the establishment of any office or agency at which the principal of and interest, if any, on debt securities of that series will be payable;

if other than denominations of \$1,000 or any integral multiple thereof, the denominations in which the debt securities of the series will be issuable;

the obligations or instruments, if any, which may be eligible for use in defeasance of any debt securities in respect of the debt securities of a series denominated in a currency other than dollars or in a composite currency;

whether or not the debt securities of such series will be issued as original issue discount securities and the terms thereof, including the portion of the principal amount thereof which will be payable upon declaration of acceleration of the maturity;

whether the principal of and premium, if any, or interest, if any, on such debt securities is payable, at the election of TDS or the holder thereof, in coin or currency, including composite currencies, other than that in which the debt securities are stated to be payable;

whether the amount of payment of principal of and premium, if any, or interest, if any, on such debt securities may be determined with reference to an index, formula or other method, or based on a coin or currency other than that in which the debt securities are stated to be payable;

any addition to, or modification or deletion of, any covenants or terms to the Indenture, including events of default with respect to the debt securities of the series;

the terms and conditions, if any, pursuant to which the debt securities of the series are secured;

whether the debt securities of the series will be exchangeable into other securities and, if so, the terms and conditions upon which such securities will be exchangeable; and

any other terms of such series not inconsistent with the Indenture.

We may issue debt securities at a discount below their stated principal amount and provide for less than the entire principal amount of the debt securities to be payable upon declaration of acceleration of maturity. In that event, we will describe any material federal income tax considerations and other material considerations in the applicable prospectus supplement.

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### **Form, Exchange, Registration and Transfer**

Debt securities in definitive form will be issued as registered securities without coupons in denominations of \$1,000 unless otherwise specified in the accompanying prospectus supplement and will be authenticated by the Trustee.

You may present debt securities for registration or transfer, with the form of transfer endorsed thereon duly executed, or exchange, at the office of the security registrar, without service charge and upon payment of any taxes and other governmental charges.

Such transfer or exchange will be effected upon TDS or the security registrar being satisfied with the documents of title and identity of the person making the request.

It is expected that the security register will be maintained by the Trustee at its offices in New York, New York.

We may change the securities registrar and the place for registration of transfer and exchange of the debt securities and may designate one or more additional places for such registration and exchange.

We will not be required to:

issue, register the transfer of or exchange any debt security during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of less than all the outstanding debt securities and ending at the close of business on the day of such mailing, or

register the transfer of or exchange any debt securities or portions thereof called for redemption in whole or in part.

### **Payment and Paying Agents**

You will receive payment of principal of and premium, if any, on any debt security only against surrender by you to the paying agent of such debt security.

Principal of and any premium and interest on any debt security will be payable at the office of such paying agent or paying agents as we may designate from time to time, except that at our option, we may pay any interest by check mailed to the address of the person entitled thereto as such address will appear in the security register with respect to such debt security.

It is expected that the Trustee will act as paying agent with respect to debt securities. We may at any time designate additional paying agents or rescind the designation of any paying agents or approve a change in the office through which any paying agent acts.

All monies paid by us to a paying agent for the payment of the principal of and premium, if any, or interest, if any, on any debt securities that remain unclaimed at the end of two years after such principal, premium, if any, or interest will have become due and payable, subject to applicable law, will be repaid to us and the holder of such debt security will thereafter look only to us for payment thereof.

### **Book-Entry Debt Securities**

Except under the circumstances described below, the debt securities may be issued in whole or in part in the form of one or more global debt securities that will be deposited with, or on behalf of, a depository as we may designate and registered in the name of a nominee of such depository.

It is expected that Depository Trust Company will be the designated depository. Information about the designated depository will be set forth in the Prospectus Supplement.

Book-entry debt securities represented by a global security will not be exchangeable for certificated notes and, except as set forth below or in the Prospectus Supplement, will not otherwise be issuable as certificated notes. Except as set forth below or in the Prospectus Supplement, owners of beneficial interests in a global security will not be entitled to have any of the individual book-entry debt securities represented by a global security registered in their names, will not receive or be entitled to receive physical delivery of any such book-entry security and will not be considered the owners thereof under the Indenture, including, without limitation, for purposes of consenting to any amendment thereof or supplement thereto.

So long as the depository, or its nominee, is the registered owner of a global security, such depository or such nominee, as the case may be, will be considered the sole owner of the individual book-entry debt securities represented by such global security for all purposes under the Indenture.

None of TDS, the Trustee nor any agent for payment on or registration of transfer or exchange of any global security will have any responsibility or liability for any aspect of the depository's records relating to or payments made on account of beneficial interests in such global security or for maintaining, supervising or reviewing any records relating to such beneficial interests.

Payments of principal of and premium, if any, and any interest on individual book-entry debt securities represented by a global security will be made to the depository or its nominee, as the case may be, as the owner of such global security.

If the designated depository is at any time unwilling or unable to continue as depository and a successor depository is not appointed, we will issue individual certificated notes in exchange for the global note representing the corresponding book-entry debt securities.

In addition, we may at any time and in our sole discretion determine not to have any debt securities represented by the global security and, in such event, will issue individual certificated notes in exchange for the global security representing the corresponding book-entry debt securities. In any such instance, an owner of a book-entry security represented by a global security will be entitled to physical delivery of individual certificated notes equal in principal amount to such book-entry security and to have such certificated notes registered in his or her name.

#### **Modification of the Indenture**

*With the Consent of Securityholders.* The Indenture contains provisions permitting TDS and the Trustee, with the consent of the holders of not less than a majority in principal amount of debt securities of each series that are affected by the modification, to modify the Indenture or any supplemental indenture affecting that series or the rights of the holders of that series of debt securities. However, no such modification, without the consent of the holder of each outstanding security affected thereby, may:

extend the fixed maturity of any debt securities of any series,

reduce the principal amount of any debt securities of any series,

reduce the rate or extend the time of payment of interest on any debt securities of any series,

reduce any premium payable upon the redemption of any debt securities of any series,

reduce the amount of the principal of a discount security that would be due and payable upon a declaration of acceleration of the maturity of any debt securities of any series,

reduce the percentage of holders of aggregate principal amount of debt securities which are required to consent to any such supplemental indenture, or



reduce the percentage of holders of aggregate principal amount of debt securities which are required to waive any default and its consequences.

*Without the Consent of Securityholders.* In addition, TDS and the Trustee may execute, without the consent of any holder of debt securities, any supplemental indenture for certain other usual purposes, including:

to evidence the succession of another person to TDS or a successor to TDS, and the assumption by any such successor of the covenants of TDS contained in the Indenture or otherwise established with respect to the debt securities;

to add to the covenants of TDS further covenants, restrictions, conditions or provisions for the protection of the holders of the debt securities of all or any series, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions, conditions or provisions a default or an Event of Default with respect to such series permitting the

General & administrative expenses

9,981

11,972

20,734

22,282

Selling expenses

3,901

4,308

7,817

9,176

Depreciation and amortization

1,160

1,318

2,316

2,652

Operating income (loss)

1,159

(3,827

)

1,060

(3,364

)

Interest expense, net

628

1,318

1,268

2,164

Income (loss) before provision (benefit) for income taxes

531

(5,145

)

(208

)

(5,528

)

Provision (benefit) for income taxes

275

(1,672

)

(131

)

(1,813

)

Net income (loss)

\$

256

\$

(3,473

)

\$

(77

)

\$

(3,715

)

Net income (loss) per share:

BASIC

\$

0.01

\$

(0.19)

)

\$

0.00

\$

(0.20)

)

DILUTED



\$

0.01

\$

(0.19)

)

\$

0.00

\$

(0.20)

)

Weighted average shares outstanding:

BASIC

18,421,132

18,230,893

18,403,852

18,204,545

DILUTED

18,421,955

18,230,893

18,403,852

18,204,545

See notes to condensed consolidated financial statements.

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**Summer Infant, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Comprehensive Income (Loss)**

Note that all amounts presented in the table below are in thousands of U.S. dollars.

	Unaudited For the three months ended		Unaudited For the six months ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Net income (loss)	\$ 256	\$ (3,473)	\$ (77)	\$ (3,715)
Other comprehensive (loss) income:				
Changes in foreign currency translation adjustments	(130)	203	82	(392)
Comprehensive income (loss)	\$ 126	\$ (3,270)	\$ 5	\$ (4,107)

See notes to condensed consolidated financial statements.

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**Summer Infant, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**

Note that all amounts presented in the table below are in thousands of U.S. dollars.

	<b>Unaudited</b>	
	<b>For the six months ended</b>	
	<b>July 2, 2016</b>	<b>July 4, 2015</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (77)	\$ (3,715)
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation and amortization	2,294	2,619
Stock-based compensation expense	218	419
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	2,080	(1,192)
Decrease in inventory	105	1,517
(Increase) in prepaids and other assets	(272)	(647)
(Decrease) increase in accounts payable and accrued expenses	(1,301)	7,029
Net cash provided by operating activities	3,047	6,030
<b>Cash flows from investing activities:</b>		
Acquisitions of other intangible assets		(472)
Acquisitions of property and equipment	(1,242)	(961)
Net cash used in investing activities	(1,242)	(1,433)
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options		46
Proceeds from new Term Loan Facility		10,000
Proceeds from new FILO Facility		5,000
Repayment of prior Term Loan	(1,000)	(12,500)
Net repayment on revolving facilities	(779)	(5,944)

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Net cash used in financing activities	(1,779)	(3,398)
Effect of exchange rate changes on cash and cash equivalents	198	(986)
Net increase in cash and cash equivalents	224	213
Cash and cash equivalents, beginning of period	923	1,272
Cash and cash equivalents, end of period	\$ 1,147	\$ 1,485
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,085	\$ 1,313
Cash paid for income taxes	\$ 241	\$ 236

See notes to condensed consolidated financial statements.

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**SUMMER INFANT, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

The Company designs, markets and distributes branded juvenile health, safety and wellness products that are sold globally to large national retailers as well as independent retailers, primarily in North America. The Company currently markets its products in several product categories including monitoring, safety, nursery, baby gear, and feeding products. Most products are sold under our core brand names of Summer®, SwaddleMe®, Born Free®, and Kiddopotamus®.

*Basis of Presentation and Principles of Consolidation*

The accompanying interim, condensed consolidated financial statements of the Company are unaudited, but in the opinion of management, reflect all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results for the interim periods. Accordingly, they do not include all information and notes required by generally accepted accounting principles in the United States of America ( GAAP ) for complete financial statements. The results of operations for interim periods are not necessarily indicative of results to be expected for the entire fiscal year or any other period. The balance sheet at January 2, 2016 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes for the year ended January 2, 2016 included in its Annual Report on Form 10-K filed with the SEC on February 24, 2016.

It is the Company's policy to prepare its financial statements on the accrual basis of accounting in conformity with GAAP. The interim condensed consolidated financial statements include the accounts of its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidation. Certain prior year balances have been retrospectively reclassified for current year reporting purposes.

All dollar amounts included in the Notes to Condensed Consolidated Financial Statements are in thousands of U.S. dollars, except share and per share amounts.

*Revenue Recognition*

The Company records revenue when all of the following occur: persuasive evidence of an arrangement exists, product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. Sales are recorded net of provisions for returns and allowances, customer discounts, and other sales-related discounts. The Company bases its estimates for discounts, returns and allowances on negotiated customer terms and historical experience. Customers do not have the right to return products unless the products are defective. The Company records a reduction of sales for estimated future defective product deductions based on contractual terms and historical experience.

Sales incentives or other consideration given by the Company to customers that are considered adjustments to the selling price of the Company's products, such as markdowns, are reflected as reductions of revenue. Sales incentives and other consideration that represent costs incurred by the Company for assets or services received, such as the appearance of the Company's products in a customer's national circular ad, are reflected as selling expenses in the accompanying interim Condensed Consolidated Statements of Operations.

*Use of Estimates*

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and related disclosures. These estimates are based on management's best knowledge as of the date the financial statements are published of current events and actions the Company may undertake in the future. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of our financial statements. Accordingly, actual results could differ from those estimates, which could have a material effect on the reported amounts of assets and liabilities in our financial statements and results of operations.



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*Inventory Valuation*

Inventory is comprised mostly of finished goods and some component parts and is stated at the lower of cost using the first-in, first-out ( FIFO ) method, or market (net realizable value). The Company regularly reviews slow-moving and excess inventories, and writes down inventories to net realizable value if the ultimate expected net proceeds from the disposals of excess inventory are less than the carrying cost of the merchandise.

*Income Taxes*

Income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred income tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and carry-forwards. The measurement of deferred income tax assets is adjusted by a valuation allowance, if necessary, to recognize future tax benefits only to the extent, based on available evidence, that it is more likely than not that such benefits will be realized.

The Company follows the appropriate guidance relative to uncertain tax positions. This standard provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements. Uncertain tax positions must meet a recognition threshold of more-likely-than-not in order for those tax positions to be recognized in the financial statements. Deferred taxes are presented as long term on the balance sheet.

*Net Income (Loss) Per Share*

Basic earnings (loss) per share for the Company are computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share includes the dilutive impact of outstanding stock options and unvested restricted shares.

*Translation of Foreign Currencies*

All assets and liabilities of the Company's foreign subsidiaries, each of whose functional currency is in its local currency, are translated into U.S. dollars at the exchange rate in effect at the end of the quarter and the income and expense accounts of these affiliates have been translated at average rates prevailing during each respective quarter. Resulting translation adjustments are made to a separate component of stockholders' equity within accumulated other comprehensive income (loss). Foreign exchange transaction gains and losses are included in the accompanying interim, condensed consolidated statement of operations.

*Recently Issued Accounting Pronouncements*

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This guidance was originally proposed to be effective for reporting periods beginning after December 15, 2016, however in July 2015, the FASB approved the delay in this guidance until reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This guidance requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. This guidance is effective for fiscal years beginning after December 15, 2015. The Company adopted this guidance in the first quarter of 2016 and it resulted in the retrospective reclassification of \$1,489 as of January 2, 2016 in unamortized debt issuance costs from other assets to a direct reduction of long-term debt.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. This guidance requires inventory within the scope of ASU 2015-11 to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance is effective for fiscal years beginning after December 15, 2016. The Company has evaluated the impact this guidance will have on its consolidated financial statements and expects the impact to be immaterial.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. This guidance eliminates the current requirement for an entity to separate deferred income tax liabilities and deferred tax assets into current and non-current amounts in a classified balance sheet. Instead, this guidance requires deferred tax liabilities, deferred tax assets, and valuation allowances be classified as noncurrent in a classified balance sheet. This ASU is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted.

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The Company adopted this guidance in the first quarter of 2016 and it resulted in the retrospective reclassification of \$799 as of January 2, 2016 in current deferred tax assets to noncurrent deferred tax assets.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), ( ASU 2016-02 ). ASU 2016-02 requires lessees to recognize assets and liabilities on the balance sheet for leases with lease terms greater than twelve months and disclose key information about leasing arrangements. The effective date will be the first quarter of fiscal year 2019, with early adoption permitted. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

**2. DEBT**

*Credit Facilities*

In April 2015, the Company and its wholly owned subsidiary, Summer Infant (USA), Inc., entered into an amended and restated loan and security agreement with Bank of America, N.A., as agent, providing for an asset-based credit facility. The amended and restated Credit Facility replaced the Company's prior credit facility with Bank of America. The amended and restated credit facility was subsequently amended in December 2015 and May 2016 to (i) modify the interest rate under each of the Revolving Facility, FILO Facility and Term Loan Facility (each as defined below), (ii) modify the maximum leverage ratio financial covenant; (iii) amend the definition of EBITDA with respect to certain fees and expenses included within the definition; (iv) modify certain reporting requirements and (v) remove the occurrence of an event having a material adverse effect on the Company as an event of default (as amended, the Credit Facility ).

The Credit Facility consists of a \$60,000 asset-based revolving credit facility, with a \$10,000 letter of credit sub-line facility (the Revolving Facility ), a \$5,000 first in last out (FILO) revolving credit facility (the FILO Facility ) and a \$10,000 term loan facility (the Term Loan Facility ). Pursuant to an accordion feature, the Credit Facility includes the ability to increase the Revolving Facility by an additional \$15,000 upon the Company's request and the agreement of the lenders participating in the increase. The total borrowing capacity under the Revolving Facility is based on a borrowing base, generally defined as 85% of the value of eligible accounts plus the lesser of (i) 70% of the value of eligible inventory or (ii) 85% of the net orderly liquidation value of eligible inventory, less reserves. The total borrowing capacity under the FILO Facility is based on a borrowing base, generally defined as a specified percentage of the value of eligible accounts that steps down over time, plus a specified percentage of the value of eligible inventory that steps down over time.

The scheduled maturity date of the loans under the Revolving Facility and the Term Loan Facility is April 21, 2020, and loans under the FILO Facility terminate April 21, 2018, subject in each case to customary early termination provisions. Any termination of the Revolving Facility would require termination of the Term Loan Facility and the FILO Facility.

All obligations under the Credit Facility are secured by substantially all of the Company's assets. In addition, Summer Infant Canada Limited and Summer Infant Europe Limited, subsidiaries of the Company, are guarantors under the Credit Facility. Proceeds from the loans were used to (i) repay the Company's outstanding term loan, (ii) pay fees and transaction expenses associated with the closing of the Credit Facility, (iii) pay obligations under the Credit Facility, and (iv) pay for lawful corporate purposes, including working capital.

Borrowings under the Revolving Facility will bear interest, at the Company's option, at a base rate or at LIBOR, plus applicable margins based on average quarterly availability and ranging between 2.0% and 2.5% on LIBOR borrowings and 0.5% and 1.0% on base rate borrowings. Loans under the FILO Facility and Term Loan Facility will bear interest, at the Company's option, at a base rate or at LIBOR, plus a margin of 4.25% on LIBOR borrowings and 2.75% on base rate borrowings.

Beginning on July 1, 2015, the Company was required to begin repaying the Term Loan Facility in quarterly installments of \$500. Beginning with the fiscal year ending January 2, 2016, the Company was required to prepay the Term Loan Facility in an amount equal to 50% of the Company's excess cash flow, as such term is defined in the Credit Facility, at the end of each fiscal year.

Under the Credit Facility, the Company must comply with certain financial covenants, including that the Company (i) maintain a fixed charge coverage ratio of at least 1.0 to 1.0 for the twelve consecutive fiscal months most recently ended and (ii) maintain a certain leverage ratio at the end of each fiscal quarter. For purposes of the financial covenants, consolidated EBITDA is defined as net income before interest, taxes, depreciation and amortization, plus certain customary expenses, fees, non-cash charges

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and up to \$2,000 of specified inventory dispositions, and minus certain customary non-cash items increasing net income and other specified items.

The Credit Facility contains customary affirmative and negative covenants. Among other restrictions, the Company is restricted in its ability to incur additional debt, make acquisitions or investments, dispose of assets, or make distributions unless in each case certain conditions are satisfied. The Credit Facility also contains customary events of default, including the occurrence of a change of control. In the event of a default, all of the Company's obligations under the Credit Facility may be declared immediately due and payable. For certain events of default relating to insolvency and receivership, all outstanding obligations immediately become due and payable.

As of July 2, 2016, the base rate on loans was 4.5% and the LIBOR rate was 3.125%. The amount outstanding on the Revolving Facility at July 2, 2016 was \$39,201. Total borrowing capacity under the Revolving Facility at July 2, 2016 was \$48,769 and borrowing availability was \$9,568. The amounts outstanding on the Term Loan Facility and FILO Facility at July 2, 2016 were \$7,500 and \$5,000, respectively.

Aggregate maturities of bank debt related to the BofA credit facility:

<b>Fiscal Year ending:</b>		
2016	\$	2,250
2017	\$	4,500
2018	\$	3,250
2019	\$	2,000
2020	\$	39,701
Total	\$	51,701

Unamortized debt issuance costs were \$1,415 at July 2, 2016 and \$1,489 at January 2, 2016, and are presented as a direct deduction of long-term debt on the consolidated balance sheets.

### 3. INTANGIBLE ASSETS

Intangible assets consisted of the following:

	<b>July 2, 2016</b>	<b>January 2, 2016</b>
Brand names	\$ 14,812	\$ 14,812
Patents and licenses	3,766	3,766
Customer relationships	6,946	6,946

Other intangibles	1,882	1,882
	27,406	27,406
Less: Accumulated amortization	(9,247)	(8,894)
Intangible assets, net	\$ 18,159	\$ 18,512

The amortization period for the majority of the intangible assets ranges from 5 to 20 years for those assets that have an estimated life; certain of the assets have indefinite lives (brand names). Total of intangibles not subject to amortization amounted to \$12,308 at July 2, 2016 and January 2, 2016.

#### 4. COMMITMENTS AND CONTINGENCIES

##### *Litigation*

The Company is a party to routine litigation and administrative complaints incidental to its business. The Company does not believe that any or all of such routine litigation and administrative complaints is likely to have a material adverse effect on the Company's financial condition or results of operations, except as noted below.

On May 27, 2015, the Company filed a Complaint against Carol E. Bramson, Annamaria Dooley, Kenneth N. Price, Carson J. Darling, Dulcie M. Madden, and Bruce Work in the United States District Court for the District of Rhode Island (Civil Action

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No. 1:15-CV-00218-5-LDA) (the Complaint). The Complaint alleges theft and misappropriation of the Company's confidential and proprietary trade secrets, intellectual property, and business, branding and marketing strategies. The following updates information previously reported in Note 10, Commitments and Contingencies, under Part IV, Item 15 of the Company's Annual Report on Form 10-K for the year ended January 2, 2016 and Note 4, Commitments and Contingencies, under Part 1, Item 1 of the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2016.

On May 19, 2016, a hearing was held on the Company's motion to dismiss certain counterclaims made by Mr. Price and on Ms. Dooley's motion to amend her counterclaims and bring a third party complaint. The court granted Ms. Dooley's motion and denied the Company's motion to dismiss, with leave to renew the motion if Mr. Price amended his answer and counterclaims. Ms. Dooley filed an amendment to her counterclaims on May 25, 2016, which the Company and Mr. Almagor answered on July 5, 2016. Mr. Price filed a motion for leave to amend his answer and counterclaims on June 17, 2016, to which the Company has filed an opposition based on the grounds that one of the counterclaims has failed to state a claim upon which relief can be granted. On June 6, 2016, the remaining defendants filed a motion against the Company for sanctions based on the Company's alleged failure to disclose applicable insurance policies, to which the Company has filed an opposition. On July 26, 2016, Ms. Bramson filed a motion for leave to amend her answer and counterclaim to add a claim against the Company and Mr. Almagor for gender discrimination. The Company and the remaining defendants are concluding discovery, and no trial date has been set. The Company has incurred significant expenses related to this lawsuit to date and may continue to incur expenses related to this lawsuit. In connection with the litigation, the Company has informed its insurers of the litigation, and has received indication that portions of our defense costs may be covered as well as defense costs of the defendants. However, the Company cannot estimate at this time the amounts that may be reimbursed under its policies, and any insurance reimbursements would be subject to applicable deductibles. The Company cannot predict the outcome of this lawsuit or for how long it will remain active.

## **5. SHARE BASED COMPENSATION**

The Company is authorized to issue up to 3,000,000 shares for equity awards under the Company's 2006 Performance Equity Plan (2006 Plan) and 1,700,000 shares for equity awards under the Company's 2012 Incentive Compensation Plan (2012 Plan). Periodically, the Company may also grant equity awards outside of its 2006 Plan and 2012 Plan as inducement grants for new hires.

Under the 2006 Plan and 2012 Plan, awards may be granted to participants in the form of non-qualified stock options, incentive stock options, restricted stock, deferred stock, restricted stock units and other stock-based awards. Subject to the provisions of the plans, awards may be granted to employees, officers, directors, advisors and consultants who are deemed to have rendered or are able to render significant services to the Company or its subsidiaries and who are deemed to have contributed or to have the potential to contribute to the Company's success. The Company accounts for options under the fair value recognition standard. The application of this standard resulted in share-based compensation expense for the three months ended July 2, 2016 and July 4, 2015 of \$91 and \$245, respectively, and share-based compensation expense for the six months ended July 2, 2016 and July 4, 2015 of \$218 and \$419, respectively. Stock based compensation expense is included in selling, general and administrative expenses.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the table below. The Company uses the simplified method to estimate the expected term of the options, but used an estimate for grants of plain vanilla stock options based on a formula prescribed by the Securities and Exchange Commission. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if

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actual forfeitures differ from those estimates. Share-based compensation expense recognized in the consolidated financial statements in 2016 and 2015 is based on awards that are ultimately expected to vest.

As of July 2, 2016, there were 1,437,240 stock options outstanding and 225,073 unvested restricted shares outstanding.

During the six months ended July 2, 2016, the Company granted 193,300 stock options and granted 109,400 shares of restricted stock, respectively. The following table summarizes the weighted average assumptions used for stock options granted during the six months ended July 2, 2016 and July 4, 2015.

	2016	2015
Expected life (in years)	5.2	5.3
Risk-free interest rate	1.61%	1.66%
Volatility	63.6%	62.7%
Dividend yield	0%	0%
Forfeiture rate	11.3%	10.9%

As of July 2, 2016, there are 385,689 shares available to grant under the 2006 Plan and 1,034,722 shares available to grant under the 2012 Plan.



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**Restricted Stock Units**

In December 2015, the Company's Board of Directors granted restricted stock units to the executive Chairman of the Board (the RSUs). The RSUs represent the right to receive shares of the Company's common stock upon achievement of specified stock price performance metrics, and only vest if such market-based performance metrics are achieved. The RSUs expire on the date of the Company's 2017 annual stockholder meeting or when the Chairman leaves the Board of Directors, if sooner. The amount of shares that ultimately vest may range from 0 shares to 194,209. The fair value of the restricted stock units was determined by utilizing a Monte Carlo simulation model, which projects the value of the Company's stock versus the peer group under numerous scenarios and determines the value of the award based upon the present value of these projected outcomes. During the six months ended July 2, 2016, 38,278 RSUs vested.

There was \$26 of compensation cost recognized in the six months ending July 2, 2016 and no unrecognized compensation cost related to the RSUs. Expected cost is recognized over a weighted-average period ending August 3, 2016.

**6. WEIGHTED AVERAGE COMMON SHARES**

Basic and diluted earnings or loss per share (EPS) is based upon the weighted average number of common shares outstanding during the period. Common stock equivalents, including stock options, are included in the calculation of dilutive common shares outstanding. However, since there was a net loss in both periods presented, the inclusion of common stock equivalents was anti-dilutive. The computation of diluted common shares for the three months ended July 2, 2016 excluded 1,437,240 stock options and 210,073 shares of restricted stock outstanding. The computation of diluted common shares for the six months ended July 2, 2016 excluded 1,437,240 stock options and 225,073 shares of restricted stock outstanding. The computation of diluted common shares for the three months and six months ended July 4, 2015 excluded 1,996,533 stock options and 239,790 shares of restricted stock outstanding.

**7. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through the filing date of this Quarterly Report and determined that no subsequent events occurred that would require recognition in the consolidated financial statements or disclosure in the notes thereto.

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**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking information and statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All forward-looking statements included in this document are based on information available to us on the date hereof. It is important to note that our actual results could differ materially from those projected in such forward-looking statements contained in this Quarterly Report on Form 10-Q. These forward-looking statements include statements concerning our expectations regarding our business strategy and future growth and profitability; our ability to deliver high quality, innovative products to the marketplace; our ability to maintain and build upon our existing customer and supplier relationships; and our ability to build awareness of our core brands. These statements are based on current expectations that involve numerous risks and uncertainties. These risks and uncertainties include the concentration of our business with retail customers; the financial status of our customers and their ability to pay us in a timely manner; our ability to introduce new products or improve existing products that satisfy consumer preferences; our ability to develop new or improved products in a timely and cost-efficient manner; our ability to compete with larger and more financially stable companies in our markets; our ability to comply with financial and other covenants in our debt agreements; our ability to manage ongoing litigation costs; our dependence on key personnel; our reliance on foreign suppliers and potential disruption in foreign markets in which we operate; increases in the cost of raw materials used to manufacture our products; compliance with safety and testing regulations for our products; product liability claims arising from use of our products; unanticipated tax liabilities; an impairment of other intangible assets; and other risks as detailed in our Annual Report on Form 10-K for the year ended January 2, 2016 and subsequent filings with the Securities and Exchange Commission. All these matters are difficult or impossible to predict accurately, many of which may be beyond our control. Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Quarterly Report on Form 10-Q will prove to be accurate.*

The following discussion is intended to assist in the assessment of significant changes and trends related to the results of operations and financial condition of our Company and our consolidated subsidiaries. This Management's Discussion and Analysis should be read together with the unaudited interim condensed consolidated financial statements and related notes included elsewhere in this filing and with our consolidated financial statements for the year ended January 2, 2016 included in our Annual Report on Form 10-K for the year ended January 2, 2016.

Note that all dollar amounts in this section are in thousands of U.S. dollars, except share and per share data.

**Overview**

We are a premier infant and juvenile products company originally founded in 1985 and have publicly traded on the Nasdaq Stock Market since 2007 under the symbol SUMR. We create branded juvenile safety and infant care products (targeted for ages 0-3 years) that are intended to deliver a diverse range of parenting solutions to families. We focus on providing innovative products to meet the lifestyle and demands of families who seek more opportunities to connect with their children.

We operate in one principal industry segment across geographically diverse marketplaces, selling our products globally to large, national retailers as well as independent retailers, and on the internet through third-party websites and our own www.SummerInfant.com website. In North America, our customers include Babies R Us, Wal-Mart, Amazon.com, Target, Buy Buy Baby, Burlington Coat Factory, Kmart, Home Depot, and Lowes. Our largest European-based customers include Mothercare, Toys R Us, Argos and Tesco. We also sell through international distributors, representatives, and to select international retail customers in geographic locations where we do not have a direct sales presence.

The juvenile products industry is estimated to be a \$20 billion market worldwide, and consumer focus is on quality, safety, innovation, and style. Due to the halo effect of baby products in retail stores, there is a strong retailer commitment to the juvenile category. We believe we are positioned to capitalize on positive market trends in the juvenile products industry.

We entered fiscal 2016 with a continued focus on innovation, increasing awareness of our brands and maintaining and growing our existing relationships with our customers and suppliers. Net sales for the second quarter of 2016 decreased 2.4% from the second quarter of 2015. Sales were essentially flat when excluding sales related to our bank-approved inventory reduction plan in the second quarter of 2015. Gross margin increased from 26.6% to 32.0% reflecting the completion of our bank-approved inventory reduction plan and our exit from the furniture category. General and Administrative expenses remained elevated in the second quarter of 2016 due to continuing legal costs associated with a complaint that we filed in May 2015 but 16.6% lower than the second quarter of 2015. As a result, we ended the quarter with net income of \$0.01 per share, as compared to a net loss of \$0.19 per share for the three months ending July 4, 2015. During the six months ended July 2, 2016, we generated \$3.0 million in cash from operations that was used, in part, to pay down our credit facilities.

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In June 2016, we announced the appointment of Mark Messner as our new President and Chief Executive Officer, effective July 13, 2016. Prior to joining our Company, Mr. Messner spent 13 years with Artsana USA, Inc. (Chicco), a manufacturer of baby care products under the Chicco brand. Mr. Messner originally joined Artsana USA in 2003 as Vice President of Marketing and Product Development and served as Chief Operating Officer for three years before taking over as Chief Executive Officer in 2012. Mr. Messner began his career in 1991 at Graco Children's Products, Inc. (now part of Newell Brands).

**Summary of Critical Accounting Policies and Estimates**

There have been no significant changes in our critical accounting policies and estimates during the six months ended July 2, 2016 from our critical accounting policies and estimates disclosed under Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended January 2, 2016.

**Results of Operations**

	For the three months ended (Unaudited)		For the six months ended (Unaudited)	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Net sales	\$ 50,575	\$ 51,807	\$ 100,245	\$ 104,820
Cost of goods sold	34,374	38,036	68,318	74,074
Gross profit	16,201	13,771	31,927	30,746
General & administrative expenses	9,981	11,972	20,734	22,282
Selling expenses	3,901	4,308	7,817	9,176
Depreciation and amortization	1,160	1,318	2,316	2,652
Operating income (loss)	1,159	(3,827)	1,060	(3,364)
Interest expense, net	628	1,318	1,268	2,164
Income (loss) before provision (benefit) for income taxes	531	(5,145)	(208)	(5,528)
Provision (benefit) for income taxes	275	(1,672)	(131)	(1,813)
Net income (loss)	\$ 256	\$ (3,473)	\$ (77)	\$ (3,715)

***Three months ended July 2, 2016 compared with three months ended July 4, 2015***

Net sales declined 2.4% from \$51,807 for the three months ended July 4, 2015 to \$50,575 for the three months ended July 2, 2016. The three months ended July 4, 2015 included \$1,126 of sales related to our bank-approved inventory reduction plan. Excluding the impact of the above sales that did not occur in the three months ended July 2, 2016, net sales for the three months ended July 2, 2016 was essentially flat with the three months ended July 4, 2015.

Cost of goods sold included the cost of the finished product from suppliers, duties on certain imported items, freight-in from suppliers, and miscellaneous charges. The components remained relatively the same for the quarter ended July 2, 2016 as compared to the quarter ended July 4, 2015.

Gross profit increased 17.6% from \$13,771 for the quarter ended July 4, 2015 to \$16,201 for the quarter ended July 2, 2016. Gross margin increased from 26.6% for the quarter ended July 4, 2015 to 32.0% for the quarter ended July 2, 2016. The three months ended July 4, 2015 included \$1,775 in losses on the sale of inventory below cost relating to our bank-approved inventory reduction plan and \$734 of inventory charges taken as we completed our exit of the furniture category. Excluding the impact of the above charges that did not occur in the three months ended July 2, 2016, gross margin for the three months ended July 2, 2015 as a percent of net sales would have been 32.1%.

General and administrative expenses decreased 16.6% from \$11,972 for the quarter ended July 4, 2015 to \$9,981 for the quarter ended July 2, 2016. General and administrative expenses also decreased as a percent of sales from 23.1% for the quarter ended July 4, 2015 to 19.7% for the quarter ended July 2, 2016. The decrease in general and administrative expense dollars and as a percent of net sales is primarily attributable to lower litigation costs of \$785 in the three months ended July 2, 2016 as compared to \$1,702 for the three months ended July 4, 2015, as well as the impact of cost reduction actions taken in the latter half of fiscal 2015. Excluding the impact of litigation costs, general and administrative expenses for the three months ended July 2, 2016 would have been down 10.5% at \$9,196 as compared to \$10,270 for the three months ended July 4, 2015, or 18.2% and 19.8%, of net sales, respectively.

Selling expenses decreased 9.4% from \$4,308 for the quarter ended July 4, 2015 to \$3,901 for the quarter ended July 2, 2016. Selling expenses also decreased as a percent of sales from 8.3% for the quarter ended July 4, 2015 to 7.7% for the quarter

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ended July 2, 2016. This decrease in selling expense was primarily attributable to lower sales volume. The decrease in percent of net sales was primarily attributable to customer mix and lower royalty costs.

Depreciation and amortization decreased 12.0% from \$1,318 in the quarter ended July 4, 2015 to \$1,160 for the quarter ended July 2, 2016. The decrease in depreciation is attributable to a reduction in capital investment as a result of disciplined capital expenditure management.

Interest expense decreased 52.4% from \$1,318 in the quarter ended July 4, 2015 to \$628 for the quarter ended July 2, 2016, reflecting reduced debt levels and lower interest rates on the Company's credit facility. Interest expense for the quarter ended July 4, 2015 included a write off of \$685 for past unamortized financing fees and termination fees in connection with the refinancing of our credit facility in April 2015.

For the quarter ended July 4, 2015, we recorded a \$1,672 tax benefit on \$5,145 of pretax loss for the quarter, reflecting an estimated 32.5% tax rate for the quarter. For the quarter ended July 2, 2016, we recorded a \$275 tax provision on \$531 of pretax income for the quarter, reflecting an estimated 51.8% tax rate for the quarter. The increase in tax rate for the first three months of 2016 is attributable to an increase in non-deductible expenses in foreign jurisdictions on a lower level of consolidated income.

***Six months ended July 2, 2016 compared with six months ended July 4, 2015***

Net sales decreased 4.4% from \$104,820 for the six months ended July 4, 2015 to \$100,245 for the six months ended July 2, 2016. The six months ended July 4, 2015 included \$2,006 of sales related to our bank-approved inventory reduction plan. Excluding the impact of the above sales that did not occur in the six months ended July 2, 2016, net sales for the six months ended July 2, 2016 decreased 2.5% in comparison with the six months ended July 4, 2015. The decrease in net sales was primarily attributable to a decrease in channel inventory in advance of new product launches as well as in delays of some of our new product introductions, such as the BornFree® Breeze bottle and Summer monitors.

Cost of goods sold included the cost of the finished product from suppliers, duties on certain imported items, freight-in from suppliers, and miscellaneous charges. The components remained relatively the same for the six months ended July 2, 2016 as compared to the quarter ended July 4, 2015.

Gross profit increased 3.8% from \$30,746 for the six months ended July 4, 2015 to \$31,927 for the six months ended July 2, 2016. Gross margin increased from 29.3% for the six months ended July 4, 2015 to 31.8% for the six months ended July 2, 2016. The six months ended July 4, 2015 included \$2,098 in losses on the sale of inventory below cost relating to our bank-approved inventory reduction plan and \$734 of inventory charges taken as we completed our exit of the furniture category. Excluding the impact of the above charges that did not occur in the six months ended July 2, 2016, gross margin for the six months ended July 2, 2015 as a percent of net sales would have been 32.7%. The lower gross margin percent for the six months ended June 2, 2016 was primarily attributable to initial cost overages related to product introduction delays of our new BornFree® Breeze bottle as well as unfavorable foreign exchange and temporary demurrage costs in the first quarter.

General and administrative expenses decreased 6.9% from \$22,282 for the six months ended July 4, 2015 to \$20,734 for the six months ended July 2, 2016. General and administrative expense decreased as a percent of sales from 21.3% for the six months ended July 4, 2015 to 20.7% for the six months ended July 2, 2016. The decrease in general and administrative expense dollars and as a percent of net sales is primarily attributable to cost reduction actions implemented in the latter half of fiscal 2015, after excluding litigation costs. Litigation costs were \$2,141 for the six months ended July 2, 2016 as compared to \$1,979 for the six months ended July 4, 2015. Excluding the impact of litigation costs, general and administrative expenses for the six months ended July 2, 2016 would have been down 8.4% at \$18,593 as compared to \$20,303 for the three months ended July 4, 2015, or 18.5% and 19.4%, of net sales, respectively.

Selling expenses decreased 14.8% from \$9,176 for the six months ended July 4, 2015 to \$7,817 for the six months ended July 2, 2016. Selling expenses also decreased as a percent of sales from 8.8% for the six months ended July 4, 2015 to 7.8% for the six months ended July 2, 2016. This decrease in selling expense was primarily attributable to lower sales volume. The decrease in percent of net sales was primarily attributable to customer mix and lower royalty costs.

Depreciation and amortization decreased 12.7% from \$2,652 for the six months ended July 4, 2015 to \$2,316 for the six months ended July 2, 2016. The decrease in depreciation is attributable to a reduction in capital investment as a result of disciplined capital expenditure management.

Interest expense decreased 41.4% from \$2,164 for the six months ended July 4, 2015 to \$1,268 for the six months ended July 2, 2016, reflecting reduced debt levels and lower interest rates. Interest expense for the six months ended July 4, 2015 included a write off of \$685 for past unamortized financing fees and termination fees in connection with the refinancing of our credit facility in April 2015.

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For the six months ended July 4, 2015, we recorded a \$1,813 tax benefit on \$5,528 of pretax loss for the period resulting in an estimated tax rate of 32.8% for the period. For the six months ended July 2, 2016, we recorded a \$131 tax benefit on \$208 of pretax loss for the period resulting in an estimated tax rate of 63.0% for the period. The increase in tax rate for the first six months of 2016 is attributable to an increase in non-deductible expenses in foreign jurisdictions on a lower level of consolidated income.

**Liquidity and Capital Resources**

We fund our operations and working capital needs through cash generated from operations and borrowings under our credit facilities.

In our typical operational cash flow cycle, inventory is purchased in US dollars to meet expected demand plus a safety stock. Because the majority of our suppliers are based in Asia, inventory takes from three to four weeks to arrive from Asia to the various distribution points we maintain in the United States, Canada and the United Kingdom. Payment terms for these vendors are approximately 60-90 days from the date the product ships from Asia, therefore we are generally paying for the product a short time after it is physically received in the United States. In turn, sales to customers generally have payment terms of 30 to 60 days, resulting in an accounts receivable and increasing the amount of cash required to fund working capital. To bridge the gap between paying our suppliers and receiving payment from our customers for goods sold, we rely on our credit facilities.

The majority of our capital expenditures are for tools and molds related to new product introductions. We receive indications from retailers generally around the middle of each year as to what products the retailer will be taking into its product line for the upcoming year. Based on these indications, we will then acquire the tools and molds required to build and produce the products. In most cases, the payments for the tools are spread out over a three to four month period.

For the six months ending July 2, 2016, net cash provided by operating activities totaled \$3,047. For the six months ending July 4, 2015, net cash provided by operating activities totaled \$6,030. The decrease in net cash generated from operating activities for the six months ended July 2, 2016 as compared to the same period in the prior year is primarily attributable to lower sales and decreased accounts payable within the period.

For the six months ended July 2, 2016, net cash used in investing activities was approximately \$1,242. For the six months ended July 4, 2015, net cash used in investing activities was approximately \$1,433.

For the six months ended July 2, 2016, net cash used by financing activities was \$1,779. For the six months ended July 4, 2015, net cash used in financing activities was approximately \$3,398. The decrease in net cash used in financing activities is primarily attributable to lower operating cash generated in the first six months of 2016 compared to the first six months of 2015.



Based primarily on the above factors, net cash increased for the six months ended July 2, 2016 by \$224, resulting in a cash balance of approximately \$1,147 at July 2, 2016.

*Capital Resources*

In addition to operating cash flow, we also rely on our asset-based revolving credit facility with Bank of America, N.A. to meet our financing requirements, which are subject to changes in our inventory and account receivable levels. We regularly evaluate market conditions, our liquidity profile, and various financing alternatives for opportunities to enhance our capital structure. If market conditions are favorable, we may refinance our existing debt or issue additional securities. Based on past performance and current expectations, we believe that our anticipated cash flow from operations and availability under our existing credit facility are sufficient to fund our working capital, capital expenditures and debt service requirements for at least the next 12 months.

However, if we are unable to meet our current financial forecast or to manage our legal and other general and administrative costs and expenses and cannot raise additional funds or adjust our operations accordingly, we may not remain in compliance with the financial covenants required under our credit facility. Unforeseen circumstances, such as softness in the retail industry or deterioration in the business of a significant customer, could create a situation where we cannot access all of our available lines of credit due to not having sufficient assets or fixed charge coverage ratio as required under our credit facility. There is no assurance that we will meet all of our financial or other covenants in the future, or that our lenders will grant waivers if there are covenant violations. In addition, should we need to raise additional funds through additional debt or equity financings, any sale of additional debt or equity securities may cause dilution to existing stockholders. If sufficient funds are not available or are not available on acceptable terms, our ability to address any unexpected changes in our operations could be limited. Furthermore, there can be no assurance that we will be able to raise such funds if and when they are required. Failure to obtain future funding when needed or on acceptable terms could materially adversely affect our results of operations.

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*Credit Facility*

We and our wholly owned subsidiary, Summer Infant (USA), Inc., are parties to an amended and restated loan and security agreement with Bank of America, N.A., as agent, providing for an asset-based credit facility (as amended in December 2015 and May 2016, the Credit Facility ).

The Credit Facility consists of a \$60,000 asset-based revolving credit facility, with a \$10,000 letter of credit sub-line facility (the Revolving Facility ), a \$5,000 first in last out (FILO) revolving credit facility (the FILO Facility ) and a \$10,000 term loan facility (the Term Loan Facility ). Pursuant to an accordion feature, the Credit Facility includes the ability to increase the Revolving Facility by an additional \$15,000 upon the Company s request and the agreement of the lenders participating in the increase. The total borrowing capacity under the Revolving Facility is based on a borrowing base, generally defined as 85% of the value of eligible accounts plus the lesser of (i) 70% of the value of eligible inventory or (ii) 85% of the net orderly liquidation value of eligible inventory, less reserves. The total borrowing capacity under the FILO Facility is based on a borrowing base, generally defined as a specified percentage of the value of eligible accounts that steps down over time, plus a specified percentage of the value of eligible inventory that steps down over time. For additional information on the Credit Facility, please see Note 2 to our consolidated financial statements included in this Quarterly Report on Form 10-Q.

As of July 2, 2016, the base rate on loans was 4.5% and the LIBOR rate was 3.125%. The amount outstanding on the Revolving Facility at July 2, 2016 was \$39,201. Total borrowing capacity under the Revolving Facility at July 2, 2016 was \$48,769 and borrowing availability was \$9,568. The amounts outstanding on the Term Loan Facility and FILO Facility at July 2, 2016 were \$7,500 and \$5,000, respectively.

We were in compliance with the financial covenants under the Credit Facility as of July 2, 2016.

*Off-Balance Sheet Arrangements*

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

As a smaller reporting company, as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this Item.

**ITEM 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as of July 2, 2016. Our Chief Executive Officer and Chief Financial Officer have concluded, based on this evaluation, that our controls and procedures were effective as of July 2, 2016.

*Changes in Internal Control Over Financial Reporting*

There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

The information set forth in Note 4, Commitments and Contingencies, under Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

**ITEM 1A. Risk Factors**

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended January 2, 2016, except for the following risk factor:

*If we are unable to regain compliance with certain NASDAQ Stock Market listing rules, our common stock could be delisted, which would make our common stock significantly less liquid.*

As previously announced, on June 30, 2016, we were informed that one of our independent directors, Richard Wenz, had passed away. Mr. Wenz served as a director of our Company since 2007 and was Lead Director of the Company's Board of Directors, a member of the Audit Committee and Chairman of the Nominating/Governance Committee. The number of directors currently serving on the Audit Committee has been reduced to two members due to Mr. Wenz's death. As a result, the Company is no longer compliant with NASDAQ Listing Rule 5605(c)(2), which requires that the Audit Committee consist of at least three members. In accordance with applicable rules, we must regain compliance by no later than December 27, 2016. Our Board of Directors intends to identify candidates to replace Mr. Wenz and appoint a new director to the Audit Committee who satisfies the applicable requirements of the NASDAQ listing rules prior to the expiration of the cure period.

If we are unable to regain compliance with the NASDAQ rules prior to the end of the cure period, our common stock could be delisted from the NASDAQ Capital Market and our common stock would trade in the over-the-counter (OTC) market. OTC transactions involve risks in addition to those associated with transactions on a stock exchange. Many OTC stocks trade less frequently and in smaller volumes than stocks listed on an exchange, and accordingly, are less liquid and are likely to be more volatile than exchange-traded stocks. Consequently, the liquidity of our common stock could be greatly impaired, not only in the number of shares which could be bought and sold, but also through difficulties in obtaining price quotations, reduction in our coverage by security analysts and in the news media and lower prices for our securities than might otherwise be attained. These circumstances could have an adverse effect on the ability of an investor to sell any shares of our common stock as well as on the selling price for such shares.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. Mine Safety Disclosures**

Not applicable.

**ITEM 5. Other Information.**

On May 24, 2016, we entered into an amendment to our amended and restated loan and security agreement with Bank of America, N.A. (the Amendment ). The Amendment modified the definition of EBITDA with respect to certain fees and expenses included within the definition and certain reporting requirements. The foregoing summary of the Amendment does not purport to be complete and is qualified in its entirety by reference to the full text of the Amendment, a copy of which is attached as Exhibit 10.1 and is incorporated herein by reference.

**ITEM 6. Exhibits**

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Quarterly Report on Form 10-Q.

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**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Summer Infant, Inc.**

Date: August 2, 2016

By:

/s/ Mark Messner  
Mark Messner  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 2, 2016

By:

/s/ William E. Mote, Jr.  
William E. Mote, Jr.  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Amended and Restated Bylaws of Summer Infant, Inc., as amended through May 5, 2016 (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on May 9, 2016)
10.1	Second Amendment to Amended and Restated Loan and Security Agreement among Summer Infant, Inc. and Summer Infant (USA), Inc., as Borrowers, Summer Infant Canada Limited and Summer Infant Europe Limited, as Guarantors, Certain Financial Institutions as Lenders and Bank of America, N.A. as Agent
10.2	Employment Agreement, dated as of June 27, 2016, by and between Summer Infant, Inc. and Mark Messner (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 29, 2016)
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document