

TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-Q
May 04, 2018

UNITED STATES

SECURITIES AND
EXCHANGE
COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY
REPORT PURSUANT
TO SECTION 13 OR

15(d) OF THE
SECURITIES
EXCHANGE ACT OF
1934

For the quarterly period
ended March 31, 2018

OR

TRANSITION
REPORT PURSUANT
TO SECTION 13 OR

15(d) OF THE
SECURITIES
EXCHANGE ACT OF
1934

For the transition period
from
to

Commission file number
001-14157

TELEPHONE AND DATA
SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

Delaware 36-2669023

(State or other

jurisdiction (IRS Employer

of Identification

incorporation No.)

or

organization)

30 North LaSalle Street, Suite

4000, Chicago, Illinois 60602

(Address of principal executive offices) (Zip code)

Registrant's telephone number,

including area code: (312)

630-1900

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months

(or for such shorter period that the

registrant was required

to file such reports),

and (2) has been

subject to such filing

requirements for the

past 90 days.

Indicate by check mark

whether the registrant

has submitted

electronically and

posted on its corporate

Web site, if any, every

Interactive Data File

required to be

submitted and posted

pursuant to Rule 405 of

Regulation S-T during

the preceding 12

months (or for such

shorter period that the

registrant was required to submit and post such files).

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	<input type="checkbox"/>
(Do not check if a smaller reporting company)		
Non-accelerated filer	Smaller reporting company	<input type="checkbox"/>
	Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 31, 2018
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Common Shares, \$0.01 par value Series A Common Shares, \$0.01 par value	104,307,311 Shares 7,265,440 Shares
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Telephone and Data Systems, Inc.

Quarterly Report on Form 10-Q
For the Period Ended March 31, 2018

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Telephone and Data Systems, Inc.
Management's Discussion and Analysis of
Financial Condition and Results of Operations

Executive Overview

The following discussion and analysis compares Telephone and Data Systems, Inc.'s (TDS) financial results for the three months ended March 31, 2018, to the three months ended March 31, 2017. It should be read in conjunction with TDS' interim consolidated financial statements and notes included herein, and with the description of TDS' business, its audited consolidated financial statements and Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations included in TDS' Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2017. Certain numbers included herein are rounded to millions for ease of presentation; however, calculated amounts and percentages are determined using the unrounded numbers.

This report contains statements that are not based on historical facts, including the words "believes," "anticipates," "estimates," "expects," "plans," "intends," "projects," and similar expressions. These statements constitute and represent "forward looking statements" as this term is defined in the Private Securities Litigation Reform Act of 1995. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward looking statements. See Private Securities Litigation Reform Act of 1995 Safe Harbor Cautionary Statement for additional information.

TDS uses certain "non-GAAP financial measures" and each such measure is identified in the MD&A. A discussion of the reason TDS determines these metrics to be useful and a reconciliation of these measures to their most directly comparable measures determined in accordance with accounting principles generally accepted in the United States of America (GAAP) are included in the Supplemental Information Relating to Non-GAAP Financial Measures section within the MD&A of this Form 10-Q Report.

General

TDS is a diversified telecommunications company that provides high-quality communications services to approximately 6 million connections nationwide. TDS provides wireless services through its 83%-owned subsidiary, United States Cellular Corporation (U.S. Cellular). TDS also provides wireline and cable services, through its wholly-owned subsidiary, TDS Telecommunications LLC (TDS Telecom). See Note 11 — Business Segment Information in the Notes to Consolidated Financial Statements for summary financial information on each business segment.

TDS re-evaluated internal reporting roles with regard to its hosted and managed services (HMS) business unit and, as a result, changed its reportable segments. Effective January 1, 2018, HMS was considered a non-reportable segment and is no longer being reported under TDS Telecom. Prior periods have been recast to conform to this revised presentation.

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TDS Mission and Strategy

TDS' mission is to provide outstanding communications services to its customers and meet the needs of its shareholders, its people, and its communities. In pursuing this mission, TDS seeks to grow its businesses, create opportunities for its associates and employees, and build value over the long-term for its shareholders. Across all of its businesses, TDS is focused on providing exceptional customer experiences through best-in-class services and products and superior customer service.

TDS' long-term strategy calls for the majority of its capital to be reinvested in its operating businesses to strengthen their competitive positions and financial performance, while also returning value to TDS shareholders through the payment of a regular quarterly cash dividend and share repurchases.

In 2018, TDS is working to build shareholder value by continuing to execute on its strategies to build strong, competitive businesses providing high-quality, data-focused services and products. Strategic efforts include:

- ◆ U.S. Cellular continues to offer economical and competitively priced service plans and devices to its customers, and is focused on increasing revenues from sales of related products such as accessories and device protection plans and from new services such as fixed wireless broadband. In addition, U.S. Cellular is focused on expanding its solutions available to business and government customers, including a growing suite of connected machine-to-machine solutions and software applications across various categories.
- ◆ U.S. Cellular continues to devote efforts to enhance its network capabilities. VoLTE technology has been launched successfully in Iowa and Wisconsin, and deployments in several additional operating markets will occur later this year. VoLTE technology allows customers to utilize a 4G LTE network for both voice and data services, and offers enhanced services such as high definition voice and simultaneous voice and data sessions. In addition, the deployment of VoLTE technology expands U.S. Cellular's ability to offer roaming services to other wireless carriers.
- ◆ U.S. Cellular is committed to continuous technology innovation as demonstrated by its ongoing evaluation of 5G technology. U.S. Cellular has successfully tested 5G technology in both indoor and outdoor environments and is currently engaged in efforts related to the development of 5G standards and identifying potential use cases for the technology. When deployed commercially, 5G technology is expected to help address customers' growing demand for data services as well as create opportunities for new services requiring high speed and reliability as well as low latency.
- ◆ U.S. Cellular assesses its existing wireless interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on capital. As part of this strategy, U.S. Cellular actively seeks attractive opportunities to acquire wireless spectrum, including pursuant to FCC auctions.
- ◆ TDS Telecom's Wireline business continues to focus on driving growth in its IPTV, broadband, and managedIP services by investing in fiber inside existing markets and in new out-of-territory markets. With support from the FCC's A-CAM program, Wireline will deploy higher speed broadband services to more rural areas.
- ◆ TDS Telecom's Cable business continues to make network capacity investments and offer more advanced services in its markets in line with its strategy to increase broadband penetration.

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Terms Used by TDS

The following is a list of definitions of certain industry terms that are used throughout this document:

- ◆ 4G LTE – fourth generation Long-Term Evolution which is a wireless broadband technology.
- ◆ 5G – fifth generation wireless broadband technology.
- ◆ Account – represents an individual or business financially responsible for one or multiple associated connections. An account may include a variety of types of connections such as handsets and connected devices.
- ◆ Alternative Connect America Cost Model (A-CAM) – a USF support mechanism for rate-of-return carriers, which provides revenue support annually for ten years beginning in 2017. This support comes with an obligation to build defined broadband speeds to a certain number of locations.
- ◆ ASU 2014-09 – the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, including any subsequent modifications to such guidance. This ASU replaces existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers.
- ◆ Broadband Connections – refers to the number of Wireline customers provided high-capacity data circuits via various technologies, including DSL and dedicated internet circuit technologies or the Cable billable number of lines into a building for high-speed data services.
- ◆ Churn Rate – represents the percentage of the connections that disconnect service each month. These rates represent the average monthly churn rate for each respective period.
- ◆ Connected Devices – non-handset devices that connect directly to the U.S. Cellular network. Connected devices include products such as tablets, modems, and hotspots.
- ◆ DOCSIS – Data Over Cable Service Interface Specification is an international telecommunications standard that permits the addition of high-bandwidth data transfer to an existing cable TV (CATV) system. DOCSIS 3.1 is a system specification that increases data transmission rates.
- ◆ EBITDA – refers to earnings before interest, taxes, depreciation, amortization and accretion and is used in the non-GAAP metric Adjusted EBITDA throughout this document. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.
- ◆ Eligible Telecommunications Carrier (ETC) – designation by states for providing specified services in “high cost” areas which enables participation in universal service support mechanisms.
- ◆ Free Cash Flow – non-GAAP metric defined as Cash flows from operating activities less Cash paid for additions to property, plant and equipment.
- ◆ Gross Additions – represents the total number of new connections added during the period, without regard to connections that were terminated during that period.
- ◆ IPTV Connections – represents the number of Wireline customers provided video services using IP networking technology.
- ◆ Machine-to-Machine or M2M – technology that involves the transmission of data between networked devices, as well as the performance of actions by devices without human intervention. U.S. Cellular sells and supports M2M solutions to customers, provides connectivity for M2M solutions via the U.S. Cellular network, and has agreements with device manufacturers and software developers which offer M2M solutions.
- ◆ ManagedIP Connections – refers to the number of telephone handsets, data lines and IP trunks providing communications using IP networking technology.
- ◆ Net Additions – represents the total number of new connections added during the period, net of connections that were terminated during that period.

- ◆ OIBDA – refers to operating income before depreciation, amortization and accretion and is used in the non-GAAP metric Adjusted OIBDA throughout this document. See Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for additional information.
- ◆ Postpaid Average Billings per Account (Postpaid ABPA) – non-GAAP metric which is calculated by dividing total postpaid service revenues plus equipment installment plan billings by the average number of postpaid accounts and by the number of months in the period.
- ◆ Postpaid Average Billings per User (Postpaid ABPU) – non-GAAP metric which is calculated by dividing total postpaid service revenues plus equipment installment plan billings by the average number of postpaid connections and by the number of months in the period.
- ◆ Postpaid Average Revenue per Account (Postpaid ARPA) – metric which is calculated by dividing total postpaid service revenues by the average number of postpaid accounts and by the number of months in the period.
- ◆ Postpaid Average Revenue per User (Postpaid ARPU) – metric which is calculated by dividing total postpaid service revenues by the average number of postpaid connections and by the number of months in the period.
- ◆ Retail Connections – the sum of U.S. Cellular postpaid connections and U.S. Cellular prepaid connections.
- ◆ Tax Act – refers to comprehensive federal tax legislation enacted on December 22, 2017, which made broad and complex changes to the U.S. tax code. Now titled H.R.1, the Tax Act was originally identified as the Tax Cuts and Jobs Act of 2017.
- ◆ Universal Service Fund (USF) – a system of telecommunications collected fees and support payments managed by the FCC intended to promote universal access to telecommunications services in the United States.
- ◆ U.S. Cellular Connections - individual lines of service associated with each device activated by a customer. This includes smartphones, feature phones, tablets, modems, hotspots, and machine-to-machine devices.
- ◆ Video Connections – generally, a home or business receiving video programming counts as one video connection. In counting bulk residential or commercial connections, such as an apartment building or a hotel, connections are counted based on the number of units/rooms within the building receiving service.
- ◆ Voice Connections – refers to the individual circuits connecting a customer to Wireline’s central office facilities or the Cable billable number of lines into a building for voice services.

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- ◆ VoLTE – Voice over Long-Term Evolution is a technology specification that defines the standards and procedures for delivering voice communications and related services over 4G LTE networks.
- ◆ Wireline Residential Revenue per Connection – is calculated by dividing total Wireline residential revenue by the average number of Wireline residential connections and by the number of months in the period.

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Results of Operations — TDS Consolidated

	Three Months Ended		
	March 31,		
	2018 ¹	2017	2018 vs. 2017
(Dollars in millions)			
Operating revenues			
U.S. Cellular	\$942	\$936	1%
TDS Telecom	231	228	1%
All other ²	52	74	(28)%
Total operating revenues	1,225	1,238	(1)%
Operating expenses			
U.S. Cellular	877	882	(1)%
TDS Telecom	205	198	4%
All other ²	63	77	(17)%
Total operating expenses	1,145	1,157	(1)%
Operating income (loss)			
U.S. Cellular	65	54	21%
TDS Telecom	25	30	(17)%
All other ²	(10)	(3)	>(100)%
Total operating income	80	81	(2)%
Investment and other income (expense)			
Equity in earnings of unconsolidated entities	38	32	17%
Interest and dividend income	5	4	32%
Interest expense	(43)	(42)	(2)%
Other, net	1	2	(44)%
Total investment and other income	1	(4)	>100%

(expense)

Income before income taxes	81	77	5%
Income tax expense	24	34	(29)%
Net income	57	43	33%
Less: Net income attributable to noncontrolling interests, net of tax	18	6	>100%
Net income attributable to TDS shareholders	\$39	\$37	4%
Adjusted OIBDA (Non-GAAP) ³	\$296	\$279	6%
Adjusted EBITDA (Non-GAAP) ³	\$340	\$317	7%
Capital expenditures	\$115	\$96	20%

As of January 1, 2018, TDS adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new

1 accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

2 Consists of corporate and other operations and intercompany eliminations.

3 Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

Refer to individual segment discussions in this MD&A for additional details on operating revenues and expenses at the segment level.

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents TDS' share of net income from entities in which it has a noncontrolling interest and that are accounted for by the equity method. TDS' investment in the Los Angeles SMSA Limited Partnership (LA Partnership) contributed \$19 million and \$16 million in the three months ended March 31, 2018 and 2017, respectively, to Equity in earnings of unconsolidated entities. See Note 8 — Investments in Unconsolidated Entities in the Notes to Consolidated Financial Statements for additional information.

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Income tax expense

TDS' effective tax rate on Income before income taxes for the three months ended March 31, 2018 and 2017, was 29.7% and 44.3%, respectively. The lower rate in 2018 as compared to 2017 is due primarily to the reduction of the U.S. federal corporate tax rate from 35% to 21% as a result of the Tax Act enacted in December 2017. See Note 5 — Income Taxes in the Notes to Consolidated Financial Statements for additional information related to income taxes.

Net income attributable to noncontrolling interests, net of tax

	Three Months Ended March 31, 2018 2017	
(Dollars in millions)		
U.S. Cellular noncontrolling public shareholders'	\$ 8	\$ 4
Noncontrolling shareholders' or partners'	10	2
Net income attributable to noncontrolling interests, net of tax	\$ 18	\$ 6

Net income attributable to noncontrolling interests, net of tax includes the noncontrolling public shareholders' share of U.S. Cellular's net income and the noncontrolling shareholders' or partners' share of certain U.S. Cellular subsidiaries' net income.

Net income attributable to noncontrolling interests, net of tax increased mainly due to out-of-period adjustments recorded during the three months ended March 31, 2018. TDS determined such adjustments were not material to any of the periods impacted. See Note 9 — Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

Three Months Ended

The increase in Net income is due primarily to a decrease in income tax expense as a result of the Tax Act. Adjusted EBITDA increased due primarily to improved operating results at the U.S. Cellular segment.

*Represents a non-GAAP financial measure. Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

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U.S. CELLULAR OPERATIONS

Business Overview

U.S. Cellular owns, operates, and invests in wireless markets throughout the United States. U.S. Cellular is an 83%-owned subsidiary of TDS. U.S. Cellular's strategy is to attract and retain wireless customers through a value proposition comprised of a high-quality network, outstanding customer service, and competitive devices, plans, and pricing, all provided with a local focus.

OPERATIONS

- ◆ Serves customers with approximately 5.1 million connections including 4.5 million postpaid, 0.5 million prepaid and 0.1 million reseller and other connections

- ◆ Operates in 22 states
- ◆ Employs approximately 5,900 associates
- ◆ 6,473 cell sites including 4,099 owned towers in service

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Operational Overview

As of		
March	2018	2017
31,		
Retail		
Connections –		
End of Period		
Postpaid	4,481,000	4,455,000
Prepaid	525,000	480,000
Total	5,006,000	4,935,000
Quarter Ended		
March 31,	2018	2017
Postpaid		
Activity:		
Gross		
Additions	129,000	146,000
Net		
Losses	(37,000)	(27,000)
Churn	1.23%	1.29%

Postpaid handset gross additions for the three months ended March 31, 2018, were 96,000, slightly higher than in the

same period last year. In addition, postpaid handset churn improved year over year, from 1.08% to 0.97%. As a result, the net loss on postpaid handsets for the three months ended March 31, 2018, of 16,000 was significantly reduced from the net loss in the prior year period.

Total postpaid net losses increased for the three months ended March 31, 2018, when compared to the same period last year, due to net losses for connected devices, which reflected both lower tablet gross additions and an increase in tablet churn. The decline in tablet gross additions reflects U.S. Cellular's decision to curtail promotions of heavily discounted tablets.

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Postpaid Revenue

	Three Months Ended March 31,	
	2018	2017
Average Revenue Per User (ARPU)	\$44.34	\$45.42
Average Billings Per User (ABPU) ¹	\$57.10	\$55.82
Average Revenue Per Account (ARPA)	\$118.22	\$121.88
Average Billings Per Account (ABPA) ¹	\$152.26	\$149.78

Postpaid ABPU and Postpaid ABPA are non-GAAP financial measures. Refer to Supplemental

1 Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of these measures.

On January 1, 2018, U.S. Cellular adopted the provisions of ASU 2014-09, using a modified retrospective method. Under this method, the new accounting standard is applied only to the most recent period presented, recognizing the cumulative effect of the accounting change as an adjustment to retained earnings at January 1, 2018. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional details.

Postpaid ARPU and Postpaid ARPA decreased for the three months ended March 31, 2018, when compared to the same period last year, reflecting industry-wide price competition resulting in overall price reductions on plan offerings

as well as the impact of adopting the provisions of ASU 2014-09, as discussed above. Application of the new accounting standard had the impact of reducing ARPU and ARPA for the three months ended March 31, 2018, by \$0.53 and \$1.11, respectively. Such factors were partially offset by increases in regulatory cost recovery and Device Protection plan revenues.

Under equipment installment plans, customers pay for their wireless devices in installments over a period of time. In order to show the trend in estimated cash collections from postpaid customer billings for both service and equipment, U.S. Cellular has presented Postpaid ABPU and Postpaid ABPA, which are calculated as Postpaid ARPU and Postpaid ARPA plus average monthly equipment installment plan billings per connection and account, respectively.

Equipment installment plan billings increased for the three months ended March 31, 2018, due mainly to increased penetration of equipment installment plans. Postpaid ABPU and ABPA increased for the three months ended March 31, 2018, as the increase in equipment installment plan billings more than offset the decline in Postpaid ARPU and ARPA discussed above.

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Financial Overview — U.S. Cellular

	Three Months Ended		
	March 31,		
	2018 ¹	2017	2018 vs. 2017
(Dollars in millions)			
Retail service	\$ 649	\$ 657	(1)%
Inbound roaming	27	27	3%
Other	48	62	(23)%
Service revenues	724	746	(3)%
Equipment sales	218	190	14%
Total operating revenues	942	936	1%
System operations (excluding depreciation, amortization and accretion reported below)			
Depreciation, amortization and accretion	179	175	2%
Cost of equipment sold	219	228	(4)%
Selling, general and administrative	326	339	(4)%
Depreciation, amortization and accretion	159	153	3%
(Gain) loss on asset disposals, net	1	4	(62)%
(Gain) loss on license sales and exchanges, net	(7)	(17)	61%
Total operating expenses	877	882	(1)%

Operating income	\$ 65	\$ 54	21%
Net income	\$ 55	\$ 28	97%
Adjusted OIBDA (Non-GAAP) ²	\$ 218	\$ 194	13%
Adjusted EBITDA (Non-GAAP) ²	\$ 259	\$ 229	13%
Capital expenditures	\$ 70	\$ 61	14%

As of January 1, 2018, U.S. Cellular adopted ASU 2014-09 using a modified retrospective approach.

Under this method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

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Service revenues consist of:

- ◆ Retail Service – Charges for access, airtime, roaming, recovery of regulatory costs and value added services, including data services and products

- ◆ Inbound Roaming – Charges to other wireless carriers whose customers use U.S. Cellular’s wireless systems when roaming

- ◆ Other Service – Amounts received from the Federal USF and tower rental revenues. Imputed interest on equipment installment plan contracts is included in 2017; however, it is not included in 2018 due to the impact of adopting the provisions of ASU 2014-09

Equipment revenues consist of:

- ◆ Sales of wireless devices and related accessories to new and existing customers, agents, and third-party distributors

Key components of changes in the statement of operations line items were as follows:

Total operating revenues

Service revenues decreased for the three months ended March 31, 2018, when compared to the same period last year, as a result of (i) the decline in Postpaid ARPU as previously discussed in the Operational Overview section; and (ii) the impact of adopting the provisions of ASU 2014-09.

Federal USF revenue remained flat year over year at \$23 million. See the Regulatory Matters section in this MD&A for a description of the FCC Mobility Fund II Order (MF2 Order) and its expected impacts on U.S. Cellular's current Federal USF support.

Equipment sales revenues increased for the three months ended March 31, 2018, due to the impact of adopting the provisions of ASU 2014-09, an increase in the average revenue per device sold, a mix shift from feature phones and connected devices to higher end smartphone devices, and an increase in accessories revenues. Such factors were partially offset by a decrease in the number of devices sold and a reduction in guarantee liability amortization for equipment installment contracts as a result of changes in plan offerings.

See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional details on the financial statement impact of ASU 2014-09.

System operations expenses

System operations expenses increased for the three months ended March 31, 2018, due to higher maintenance, utility and cell site expenses largely reflecting increased cell site rent and tower maintenance and repair costs. Such factors were partially offset by a decrease in roaming expenses primarily driven by lower data roaming rates, partially offset by increased data roaming usage.

Cost of equipment sold

Cost of equipment sold decreased for the three months ended March 31, 2018, mainly due to a decrease in the number of devices sold as well as the impact of adopting the provisions of ASU 2014-09. Such factors were partially offset by increases due to a mix shift from feature phones and connected devices to higher cost smartphones, an increase in the average cost per device sold, and an increase in accessories cost.

Loss on equipment sold, defined as Equipment sales revenues less Cost of equipment sold, was \$1 million and \$38 million for the three months ended March 31, 2018 and 2017, respectively.

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Selling, general and administrative expenses

Selling expenses decreased by \$4 million for the three months ended March 31, 2018, due to lower advertising expenses and lower commissions expenses.

General and administrative expenses decreased by \$9 million for the three months ended March 31, 2018, mainly due to lower expenses for bad debts driven primarily by improved receivables collectability, lower employee related and consulting expenses, as well as reductions in numerous other general and administrative expense categories.

Depreciation, amortization and accretion

Depreciation, amortization and accretion increased for the three months ended March 31, 2018, due primarily to an increase in amortization expense related to billing system upgrades.

(Gain) loss on license sales and exchanges, net

Net gains in 2018 and 2017 were due to gains recognized on license sale and exchange transactions with various third parties.

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TDS TELECOM OPERATIONS

Business Overview

TDS Telecom operates in two reportable segments: Wireline and Cable. TDS Telecom's business objective is to provide a wide range of communication services to both residential and commercial customers, focused on high-quality broadband and video products.

OPERATIONS

- ◆ TDS Telecom provides broadband, video and voice services to approximately 1.2 million connections in 31 states.
- ◆ Employs approximately 2,800 employees.

- ◆ Wireline operates incumbent local exchange carriers (ILEC) and competitive local exchange carriers (CLEC) in 27 states.
- ◆ Cable operates primarily in Colorado, New Mexico, Texas, Utah, and Oregon.

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Financial Overview — TDS Telecom

Components of Operating Income

	Three Months Ended		
	March 31,		2018 vs.
	2018 ¹	2017	2017
(Dollars in millions)			
Operating revenues			
Wireline	\$175	\$179	(2)%
Cable	55	49	12%
TDS Telecom operating revenues	231	228	1%
Operating expenses			
Wireline	149	151	(1)%
Cable	57	47	20%
TDS Telecom operating expenses	205	198	4%
TDS Telecom operating income	\$25	\$30	(17)%
Net income	\$21	\$19	8%
Adjusted OIBDA (Non-GAAP) ²	\$80	\$80	(1)%
Adjusted EBITDA (Non-GAAP) ²	\$81	\$82	(1)%
Capital expenditures	\$40	\$27	52%

Numbers may not foot due to rounding.

As of January 1, 2018, TDS adopted ASU 2014-09 using a modified retrospective approach.

Under this method, the new accounting standard is applied¹ only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

Refer to Supplemental Information Relating to Non-GAAP Financial Measures² within this MD&A for a reconciliation of this measure.

Three Months Ended

Operating revenues increased due to Cable broadband connection growth, and price increases for video and broadband services.

Total operating expenses

Operating expenses increased due to higher video programming costs.

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WIRELINE OPERATIONS

Business Overview

TDS Telecom's Wireline business provides broadband, video and voice services. These services are provided to residential, commercial, and wholesale customers in a mix of rural, small town and suburban markets, with the largest concentration of its customers in the Upper Midwest and the Southeast. TDS Telecom's strategy is to offer its residential customers broadband, video, and voice services through value-added bundling. In its commercial business, TDS Telecom's focus is on small- to medium-sized businesses and its sales efforts emphasize advanced IP-based data and voice services.

Operational Overview

Residential broadband customers are increasingly choosing higher speeds in ILEC markets with 59% choosing speeds of 10 Mbps or greater and 27% choosing speeds of 50 Mbps or greater. Increases in broadband speeds and video connection growth drove a 4% increase in average residential revenue per connection.

Total residential connections decreased by 3% as declines in voice connections outpaced the growth in video and broadband connections.

Total commercial connections decreased by 7% due primarily to a 9% decrease in voice connections, mostly in CLEC markets.

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Financial Overview — Wireline

Components of operating Income

	Three Months Ended March 31, 2018 ¹ 2017 2018 vs. 2017		
(Dollars in millions)			
Residential	\$80	\$79	1%
Commercial	48	51	(6)%
Wholesale	47	49	(4)%
Service revenues	175	179	(2)%
Equipment and product sales	—	—	26%
Total operating revenues	175	179	(2)%

Cost of services (excluding Depreciation, amortization and accretion reported below)	65	63	3%
Cost of equipment and products	—	1	(23)%
Selling, general and administrative	47	48	(3)%
Depreciation, amortization and accretion	37	39	(5)%
Total operating expenses	149	151	(1)%

Operating income	\$26	\$28	(6)%
Income before income taxes	\$28	\$30	(5)%
Adjusted OIBDA (Non-GAAP) ²	\$63	\$67	(6)%
Adjusted EBITDA (Non-GAAP) ²	\$65	\$69	(6)%
Capital expenditures	\$29	\$17	66%

Numbers may not foot due to rounding.

As of January 1, 2018, TDS adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new accounting standard
 1 is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

Refer to Supplemental Information
 2 Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

Residential revenues consist of:

- ◆ Broadband services, including fiber-based and other digital, premium and enhanced data services
- ◆ Video and satellite video
- ◆ Voice services

Commercial revenues consist of:

- ◆ TDS managed IP voice and data services
- ◆ High-speed and dedicated business internet services

- ◆ Voice services

Wholesale revenues consist of:

- ◆ Network access services primarily to interexchange and wireless carriers for the origination and termination of interstate and intrastate long distance phone calls on TDS Telecom's network and special access services to carriers and others
- ◆ Federal and State USF support

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Key components of changes in the statement of operations items were as follows:

Total operating revenues

Residential revenues increased as growth in broadband speeds and IPTV connections more than offset the declines in voice services. Average video connections grew 12%, offset by a 7% decline in average voice connections.

Commercial revenues decreased due to declining connections mostly in CLEC markets.

Wholesale revenues decreased due primarily to decreases in network access and special access services.

Cost of services

Cost of services increased due to higher charges related to growth in video and contractor charges, offset by reduced costs of purchasing unbundled network elements, provisioning circuits and providing long-distance services.

Selling, general and administrative

Selling, general and administrative decreased due to reductions in employee related expense partially offset by increases in bad debts expense, legal expense and contributions to the Federal Universal Service Fund.

Depreciation, amortization and accretion

Depreciation, amortization and accretion decreased as certain assets became fully depreciated, partially offset by an increase due to a reduction in depreciable lives of customer premise equipment.

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CABLE OPERATIONS

Business Overview

TDS Telecom's Cable strategy is to expand its broadband services and leverage that growth by bundling with video and voice services. TDS Telecom seeks to be the leading provider of broadband services in its targeted markets by leveraging its core competencies in network management and customer focus.

Operational Overview

Cable connections grew 8% over 2017 due to a 14% increase in broadband connections including two small tuck-in acquisitions.

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Financial Overview — Cable

Components of Operating Income

Three Months Ended
 March 31,
 2018¹ 2017 2018 vs. 2017

(Dollars in
 millions)

Residential	\$46	\$41	12%
Commercial	10	9	13%
Total operating revenues	55	49	12%

Cost of services (excluding Depreciation, amortization and accretion reported below)	26	24	7%
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Selling, general and administrative	13	13	6%
--	----	----	----

Depreciation, amortization and accretion	17	10	71%
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Total operating expenses	57	47	20%
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Operating income (loss)	\$(1)	\$2	>(100)%
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Income (loss) before income taxes	\$(1)	\$2	>(100)%
	\$16	\$13	28%

Adjusted
 OIBDA
 (Non-GAAP)²
 Adjusted
 EBITDA \$16 \$13 28%
 (Non-GAAP)²
 Capital
 expenditures \$11 \$9 24%

Numbers may not foot due to rounding.

1 As of January 1, 2018, TDS adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

2 Refer to Supplemental Information Relating to Non-GAAP Financial Measures within this MD&A for a reconciliation of this measure.

Residential and Commercial revenues consist of:

- ◆ Broadband services, including high-speed internet, security and support services
- ◆ Video services, including premium programming in HD, multi-room and TV Everywhere offerings
- ◆ Voice services

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Key components of changes in the statement of operations items were as follows:

Commentary

Total operating revenues

Residential revenues increased due to tuck-in acquisitions, growth in broadband connections and price increases.

Commercial revenues increased due to price increases and ad insertion revenues.

Cost of services

Cost of services increased due primarily to increases in video programming fees.

Selling, general and administrative

Selling, general and administrative expenses increased due to increased IT-related expenses and higher property and other taxes.

Depreciation, amortization and accretion

Depreciation, amortization and accretion increased in 2018 due to a reduction in depreciable lives of customer premise equipment and the amortization of franchise rights. See Note 1 - Basis of Presentation in the Notes to Consolidated Financial Statements for additional information on franchise rights.

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Liquidity and Capital Resources

Sources of Liquidity

TDS and its subsidiaries operate capital-intensive businesses. Historically, TDS has used internally-generated funds and also has obtained substantial funds from external sources for general corporate purposes. In the past, TDS' existing cash and investment balances, funds available under its revolving credit facilities, funds from other financing sources, including a term loan and other long-term debt, and cash flows from operating, certain investing and financing activities, including sales of assets or businesses, provided sufficient liquidity and financial flexibility for TDS to meet its normal day-to-day operating needs and debt service requirements, to finance the build-out and enhancement of markets and to fund acquisitions. There is no assurance that this will be the case in the future. See Market Risk for additional information regarding maturities of long-term debt.

Although TDS currently has a significant cash balance, TDS has incurred negative free cash flow at times in the past and this could occur in the future. However, TDS believes that existing cash and investment balances, funds available under its revolving credit facilities, receivables securitization facility and expected cash flows from operating and investing activities will provide sufficient liquidity for TDS to meet its normal day-to-day operating needs and debt service requirements for the coming year.

TDS may require substantial additional capital for, among other uses, funding day-to-day operating needs including working capital, acquisitions of providers of cable, wireless or wireline telecommunications services, IT services or other businesses, spectrum license or system acquisitions, system development and network capacity expansion, debt service requirements, the repurchase of shares, the payment of dividends, or making additional investments. It may be necessary from time to time to increase the size of the existing revolving credit facilities, to put in place new credit facilities, or to obtain other forms of financing in order to fund potential expenditures. TDS' liquidity would be adversely affected if, among other things, TDS is unable to obtain short or long-term financing on acceptable terms, TDS makes significant spectrum license purchases, TDS makes significant business acquisitions, the LA Partnership discontinues or reduces distributions compared to historical levels, or Federal USF and/or other regulatory support payments decline. In addition, although sales of assets or businesses by TDS have been an important source of liquidity in prior periods, TDS does not expect a similar level of such sales in the future.

TDS' credit rating currently is sub-investment grade. There can be no assurance that sufficient funds will continue to be available to TDS or its subsidiaries on terms or at prices acceptable to TDS. Insufficient cash flows from operating activities, changes in its credit ratings, defaults of the terms of debt or credit agreements, uncertainty of access to capital, deterioration in the capital markets, reduced regulatory capital at banks which in turn limits their ability to borrow and lend, other changes in the performance of TDS or in market conditions or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its acquisition, capital expenditure and business development programs, reduce the acquisition of spectrum licenses, and/or reduce or cease share repurchases and/or the payment of dividends. TDS cannot provide assurance that circumstances that could have a material adverse effect on its liquidity or capital resources will not occur. Any of the foregoing would have an adverse impact on TDS' businesses, financial condition or results of operations.

Cash and Cash Equivalents

Cash and cash equivalents include cash and money market investments. The primary objective of TDS' Cash and cash equivalents investment activities is to preserve principal. Cash held by U.S. Cellular is for its operational needs and acquisition, capital expenditure and business development programs. TDS does not have direct access to U.S. Cellular cash unless U.S. Cellular pays a dividend on its common stock. U.S. Cellular has no current intention to pay a dividend to its shareholders.

At March 31, 2018, TDS' consolidated Cash and cash equivalents totaled \$779 million compared to \$619 million at December 31, 2017.

The majority of TDS' Cash and cash equivalents was held in bank deposit accounts and in money market funds that purchase only debt issued by the U.S. Treasury or U.S. government agencies across a range of eligible money market investments that may include, but are not limited to, government agency repurchase agreements, government agency debt, U.S. Treasury repurchase agreements, U.S. Treasury debt, and other securities collateralized by U.S. government obligations. TDS monitors the financial viability of the money market funds and direct investments in which it invests and believes that the credit risk associated with these investments is low.

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Financing

TDS and U.S. Cellular have unsecured revolving credit facilities available for general corporate purposes, including acquisitions, spectrum purchases and capital expenditures. These credit facilities mature in June 2021.

TDS and U.S. Cellular's unused capacity under their revolving credit facilities was \$399 million and \$298 million, respectively, as of March 31, 2018. TDS and U.S. Cellular believe they were in compliance with all of the financial covenants and requirements set forth in their revolving credit facilities as of that date. TDS and U.S. Cellular are in the process of seeking to replace these credit facilities with new facilities that would mature in 2023.

U.S. Cellular, through its subsidiaries, also has a receivables securitization facility to permit securitized borrowings using its equipment installment plan receivables for general corporate purposes. The unused capacity under this facility was \$200 million as of March 31, 2018, subject to sufficient collateral to satisfy the asset borrowing base provisions of the facility. As of March 31, 2018, the USCC Master Note Trust (Trust) held \$8 million of assets available to be pledged as collateral for the receivables securitization facility. U.S. Cellular believes it was in compliance with all of the financial covenants and requirements set forth in its receivables securitization facility as of that date.

TDS and U.S. Cellular have in place effective shelf registration statements on Form S-3 to issue senior or subordinated debt securities.

Long-term debt payments due for the remainder of 2018 and the next four years are \$224 million, which represent 9% of the total gross long-term debt obligation at March 31, 2018.

Capital Expenditures

Capital expenditures (i.e., additions to property, plant and equipment and system development expenditures), which include the effects of accruals and capitalized interest, for the three months ended March 31, 2018 and 2017, were as follows:

U.S. Cellular's capital expenditures for the three months ended March 31, 2018 and 2017, were \$70 million and \$61 million, respectively.

Capital expenditures for the full year 2018 are expected to be between \$500 million and \$550 million. These expenditures are expected to be used for the following purposes:

- ◆ Enhance network coverage by continuing to deploy VoLTE technology in certain markets and providing additional capacity to accommodate increased network usage, principally data usage, by current customers; and
- ◆ Invest in and replace end of life platforms.

TDS Telecom's capital expenditures for the three months ended March 31, 2018 and 2017, were \$40 million and \$27 million, respectively.

Capital expenditures for the full year 2018 are expected to be approximately \$270 million. These expenditures are expected to be used for the following purposes:

- ◆ Maintain and enhance existing infrastructure including build-out requirements to meet state broadband and A-CAM programs;
- ◆ Upgrade broadband capacity and speeds;
- ◆ Support success-based spending to sustain IPTV, broadband, and Cable growth;
- ◆ Build Cloud TV platform; and
- ◆ Expand fiber deployment, within and outside of current markets.

TDS plans to finance its capital expenditures program for 2018 using primarily Cash flows from operating activities, existing cash balances and, if required, its receivables securitization and/or revolving credit facilities.

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Acquisitions, Divestitures and Exchanges

TDS may be engaged from time to time in negotiations (subject to all applicable regulations) relating to the acquisition, divestiture or exchange of companies, properties, wireless spectrum and other possible businesses. In general, TDS may not disclose such transactions until there is a definitive agreement. TDS assesses its business interests on an ongoing basis with a goal of improving the competitiveness of its operations and maximizing its long-term return on capital. As part of this strategy, TDS actively seeks attractive opportunities to acquire wireless spectrum, as well as telecommunications or cable markets, or other possible businesses. TDS also may seek to divest outright or include in exchanges for other interests those interests that are not strategic to its long-term success.

Variable Interest Entities

TDS consolidates certain “variable interest entities” as defined under GAAP. See Note 9 — Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information related to these variable interest entities. TDS may elect to make additional capital contributions and/or advances to these variable interest entities in future periods in order to fund their operations.

Common Share Repurchase Programs

TDS and U.S. Cellular have repurchased and expect to continue to repurchase their Common Shares, in each case subject to any available repurchase program. However, there were no share repurchases made under these programs in the three months ended March 31, 2018, or in the year ended December 31, 2017.

As of March 31, 2018, the maximum dollar value of TDS Common Shares that may yet be purchased under TDS’ program was \$199 million. For additional information related to the current TDS repurchase authorization, see Unregistered Sales of Equity Securities and Use of Proceeds.

U.S. Cellular also has a share repurchase authorization. As of March 31, 2018, the total cumulative amount of U.S. Cellular Common Shares authorized to be purchased is 5,900,849.

Contractual and Other Obligations

There were no material changes outside the ordinary course of business between December 31, 2017 and March 31, 2018, to the Contractual and Other Obligations disclosed in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in TDS’ Form 10-K for the year ended December 31, 2017.

Off-Balance Sheet Arrangements

TDS had no transactions, agreements or other contractual arrangements with unconsolidated entities involving “off-balance sheet arrangements,” as defined by SEC rules, that had or are reasonably likely to have a material current or future effect on its financial condition, results of operations, liquidity, capital expenditures or capital resources.

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Consolidated Cash Flow Analysis

TDS operates a capital- and marketing-intensive business. TDS makes substantial investments to acquire wireless licenses and properties and to construct and upgrade communications networks and facilities as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities have required substantial investments in potentially revenue enhancing and cost-reducing upgrades to TDS' networks. TDS utilizes cash on hand, cash from operating activities, cash proceeds from divestitures and dispositions of investments, and short-term and long-term debt financing to fund its acquisitions (including spectrum licenses), construction costs, operating expenses and share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions and divestitures, capital expenditures and other factors. The following discussion summarizes TDS' cash flow activities for the three months ended March 31, 2018 and 2017.

2018 Commentary

TDS' Cash, cash equivalents and restricted cash increased \$161 million in the first quarter of 2018. Net cash provided by operating activities was \$214 million in 2018 due primarily to net income of \$57 million plus non-cash items of \$235 million and distributions received from unconsolidated entities of \$17 million. This was partially offset by changes in working capital items which decreased net cash by \$95 million. The working capital decrease was primarily influenced by timing of annual employee bonus, vendor and tax payments, partially offset by collections of customer and agent receivables. The adoption of ASU 2014-09 caused fluctuations in working capital items in the Consolidated Balance Sheet; however, it did not have an impact on total Net cash provided by operating activities.

Cash flows used for investing activities were \$36 million. Cash paid in 2018 for additions to property, plant and equipment totaled \$131 million. Cash paid for acquisitions and licenses was \$9 million. This was partially offset by cash received for investments of \$100 million, resulting from the redemption of short-term Treasury bills.

Cash flows used for financing activities were \$17 million, reflecting ordinary activity such as the payment of dividends and the scheduled repayments of debt.

2017 Commentary

TDS' Cash, cash equivalents and restricted cash remained relatively flat since December 31, 2016. Net cash provided by operating activities was \$137 million in 2017, due primarily to net income of \$43 million plus non-cash items of \$201 million and distributions received from unconsolidated entities of \$11 million. This was partially offset by changes in working capital items which decreased cash by \$118 million. The decrease in working capital items was due in part to a \$44 million increase in equipment installment plan receivables. The decrease was also a result of a \$75 million decrease in accounts payable.

The net cash provided by operating activities was offset by cash flows used for investing activities of \$125 million. Cash paid for additions to property, plant and equipment in the first quarter of 2017 totaled \$127 million. Cash paid for acquisitions and licenses was \$14 million which was offset by Cash received from divestitures and exchanges of \$16 million.

Cash flows used for financing activities were \$16 million for the three months ended March 31, 2017, reflecting ordinary activity such as the payment of dividends and the scheduled repayments of debt.

Consolidated Balance Sheet Analysis

The following discussion addresses certain captions in the consolidated balance sheet and changes therein. This discussion is intended to highlight the significant changes and is not intended to fully reconcile the changes. Changes in financial condition during 2018 were as follows:

Cash and cash equivalents

See the Consolidated Cash Flow Analysis above for a discussion of cash and cash equivalents.

Short-term investments

Short-term investments decreased \$100 million due to the maturity of short-term investments, which consisted of U.S. Treasury Bills with original maturities of six months.

Other assets and deferred charges

Other assets and deferred charges increased \$165 million due primarily to the creation of contract assets and contract cost assets as a result of the adoption of ASU 2014-09. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

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Customer deposits and deferred revenues

Customer deposits and deferred revenues decreased \$54 million due in large part to the impact of reclassifying certain deferred revenues to Other assets and deferred charges to reflect the net contract position for each customer contract on the Consolidated Balance Sheet as required by ASU 2014-09, which was adopted on January 1, 2018. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

Accrued compensation

Accrued compensation decreased \$49 million due primarily to employee bonus payments in March 2018.

Deferred income tax liability, net

Deferred income tax liability, net, increased \$82 million due primarily to the adoption of ASU 2014-09 increasing the net basis of assets on a U.S. GAAP basis without a corresponding increase in tax basis, as well as the impact of full expensing of qualified property additions following the enactment of the Tax Act.

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Supplemental Information Relating to Non-GAAP Financial Measures

TDS sometimes uses information derived from consolidated financial information but not presented in its financial statements prepared in accordance with U.S. GAAP to evaluate the performance of its business. Certain of these measures are considered “non-GAAP financial measures” under U.S. Securities and Exchange Commission Rules. Specifically, TDS has referred to the following measures in this Form 10-Q Report:

- ◆ EBITDA
- ◆ Adjusted EBITDA
- ◆ Adjusted OIBDA
- ◆ Free cash flow
- ◆ Postpaid ABPU

- ◆ Postpaid ABPA

Following are explanations of each of these measures.

EBITDA, Adjusted EBITDA and Adjusted OIBDA

EBITDA, Adjusted EBITDA and Adjusted OIBDA are defined as net income adjusted for the items set forth in the reconciliation below. EBITDA, Adjusted EBITDA and Adjusted OIBDA are not measures of financial performance under GAAP and should not be considered as alternatives to Net income or Cash flows from operating activities, as indicators of cash flows or as measures of liquidity. TDS does not intend to imply that any such items set forth in the reconciliation below are non-recurring, infrequent or unusual; such items may occur in the future.

Adjusted EBITDA is a segment measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. See Note 11 — Business Segment Information in the Notes to Consolidated Financial Statements for additional information.

Management uses Adjusted EBITDA and Adjusted OIBDA as measurements of profitability and, therefore, reconciliations to applicable GAAP income measures are deemed appropriate. Management believes Adjusted EBITDA and Adjusted OIBDA are useful measures of TDS’ operating results before significant recurring non-cash charges, gains and losses, and other items as presented below as they provide additional relevant and useful information to investors and other users of TDS’ financial data in evaluating the effectiveness of its operations and underlying business trends in a manner that is consistent with management’s evaluation of business performance. Adjusted EBITDA shows adjusted earnings before interest, taxes, depreciation, amortization and accretion, and gains and losses, while Adjusted OIBDA reduces this measure further to exclude Equity in earnings of unconsolidated entities and Interest and dividend income in order to more effectively show the performance of operating activities excluding investment activities. The following table reconciles EBITDA, Adjusted EBITDA and Adjusted OIBDA to the corresponding GAAP measure, Net income or Income (loss) before income taxes. Income tax expense is not provided at the individual segment level for Wireline and Cable. TDS calculates income tax expense (benefit) for TDS Telecom in total.

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	Three Months Ended March 31,	
TDS CONSOLIDATED (Dollars in millions)	2018 ¹	2017
Net income (GAAP)	\$57	\$43
Add back:		
Income tax expense	24	34
Interest expense	43	42
Depreciation, amortization and accretion	221	211
EBITDA (Non-GAAP)	345	330
Add back or deduct:		
(Gain) loss on asset disposals, net	2	4
(Gain) loss on license sales and exchanges, net	(7)	(17)
Adjusted EBITDA (Non-GAAP)	340	317
Deduct:		
Equity in earnings of unconsolidated entities	38	32
Interest and dividend income	5	4
Other, net	1	2
Adjusted OIBDA (Non-GAAP)	296	279
Deduct:		
Depreciation, amortization and accretion	221	211
(Gain) loss on asset disposals, net	2	4

(Gain) loss on license sales and exchanges, net	(7)	(17)
Operating income (GAAP)	\$80	\$81

	Three Months Ended March 31,	
U.S. CELLULAR	2018 ¹	2017
(Dollars in millions)		
Net income (GAAP)	\$55	\$28
Add back:		
Income tax expense	22	33
Interest expense	29	28
Depreciation, amortization and accretion	159	153
EBITDA (Non-GAAP)	265	242
Add back or deduct:		
(Gain) loss on asset disposals, net	1	4
(Gain) loss on license sales and exchanges, net	(7)	(17)
Adjusted EBITDA (Non-GAAP)	259	229
Deduct:		
Equity in earnings of unconsolidated entities	38	33
Interest and dividend income	4	3
Other, net	(1)	(1)
Adjusted OIBDA (Non-GAAP)	218	194
Deduct:		
Depreciation, amortization	159	153

and accretion		
(Gain) loss on		
asset disposals, net	1	4
(Gain) loss on		
license sales		
and exchanges, net	(7)	(17)
Operating income		
(GAAP)	\$65	\$54

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	Three Months Ended March 31,	
TDS TELECOM	2018 ¹	2017
(Dollars in millions)		
Net income (GAAP)	\$21	\$19
Add back:		
Income tax expense	6	13
Depreciation, amortization and accretion	54	49
EBITDA (Non-GAAP)	81	81
Add back or deduct:		
(Gain) loss on asset disposals, net	–	1
Adjusted EBITDA (Non-GAAP)	81	82
Deduct:		
Interest and dividend income	1	1
Other, net	1	1
Adjusted OIBDA (Non-GAAP)	80	80
Deduct:		
Depreciation, amortization and accretion	54	49
(Gain) loss on asset disposals, net	–	1
Operating income (GAAP)	\$25	\$30

Numbers may not
foot due to
rounding.

	Three Months Ended March 31, 2018 ¹ 2017	
WIRELINE (Dollars in millions)		
Income before income taxes (GAAP)	\$28	\$30
Add back:		
Depreciation, amortization and accretion	37	39
EBITDA (Non-GAAP)	65	69
Add back or deduct:		
(Gain) loss on asset disposals, net	—	—
Adjusted EBITDA (Non-GAAP)	65	69
Deduct:		
Interest and dividend income	1	1
Other, net	1	1
Adjusted OIBDA (Non-GAAP)	63	67
Deduct:		
Depreciation, amortization and accretion	37	39
(Gain) loss on asset disposals, net	—	—
Operating income (GAAP)	\$26	\$28

Numbers may not
foot due to
rounding.

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	Three Months Ended March 31, 2018 ¹ 2017	
CABLE (Dollars in millions)		
Income (loss) before income taxes (GAAP)	\$(1)	\$2
Add back:		
Depreciation, amortization and accretion	17	10
EBITDA (Non-GAAP)	16	12
Add back or deduct:		
(Gain) loss on asset disposals, net	—	—
Adjusted EBITDA (Non-GAAP)	16	13
Deduct:		
Interest and dividend income	—	—
Adjusted OIBDA (Non-GAAP)	16	13
Deduct:		
Depreciation, amortization and accretion	17	10
(Gain) loss on asset disposals, net	—	—
Operating income (loss) (GAAP)	\$(1)	\$2

Numbers may not
foot due to
rounding.

1 As of January 1,
2018, TDS

adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

Free Cash Flow

The following table presents Free cash flow. Management uses Free cash flow as a liquidity measure and it is defined as Cash flows from operating activities less Cash paid for additions to property, plant and equipment. Free cash flow is a non-GAAP financial measure which TDS believes may be useful to investors and other users of its financial information in evaluating liquidity, specifically, the amount of net cash generated by business operations after deducting Cash paid for additions to property, plant and equipment.

	Three Months Ended March 31, 2018 2017	
(Dollars in millions)		
Cash flows from operating activities (GAAP)	\$214	\$137
Less: Cash paid for additions to property, plant and equipment	131	127
Free cash flow (Non-GAAP)	\$83	\$10

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Postpaid ABPU and Postpaid ABPA

U.S. Cellular presents Postpaid ABPU and Postpaid ABPA to reflect estimated cash collections from postpaid customer billings for both service and equipment resulting from the increased adoption of equipment installment plans. Postpaid ABPU and Postpaid ABPA, as previously defined, are non-GAAP financial measures which U.S. Cellular believes are useful to investors and other users of its financial information in showing trends in both service and equipment and product sales revenues received from customers.

	Three Months Ended March 31, 2018 ¹ 2017	
(Dollars and connection counts in millions)		
Calculation of Postpaid ARPU		
Postpaid service revenues	\$598	\$608
Average number of postpaid connections	4.50	4.46
Number of months in period	3	3
Postpaid ARPU (GAAP metric)	\$44.34	\$45.42
Calculation of Postpaid ABPU		
Postpaid service revenues	\$598	\$608
Equipment installment plan billings	172	139
Total billings to postpaid connections	\$770	\$747
Average number of postpaid connections	4.50	4.46
Number of months in period	3	3
Postpaid ABPU	\$57.10	\$55.82

(Non-GAAP
metric)

Calculation of
Postpaid ARPA

Postpaid service revenues	\$ 598	\$ 608
Average number of postpaid accounts	1.69	1.66
Number of months in period	3	3
Postpaid ARPA (GAAP metric)	\$ 118.22	\$ 121.88

Calculation of
Postpaid ABPA

Postpaid service revenues	\$ 598	\$ 608
Equipment installment plan billings	172	139
Total billings to postpaid accounts	\$ 770	\$ 747
Average number of postpaid accounts	1.69	1.66
Number of months in period	3	3
Postpaid ABPA (Non-GAAP metric)	\$ 152.26	\$ 149.78

1 As of January 1, 2018, U.S. Cellular adopted ASU 2014-09 using a modified retrospective approach. Under this method, the new accounting standard is applied only to the most recent period presented. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

Application of Critical Accounting Policies and Estimates

TDS prepares its consolidated financial statements in accordance with GAAP. TDS' significant accounting policies are discussed in detail in Note 1 — Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements and TDS' Application of Critical Accounting Policies and Estimates is discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are included in TDS' Form 10-K for the year ended December 31, 2017.

Franchise Rights

Effective January 1, 2018, TDS prospectively changed its estimated useful life for cable video franchise rights from indefinite-lived to 15 years due primarily to the effects of increasing competition and advancements in technology for delivering and consuming video programming. Commensurate with this change, TDS reviewed its cable video franchise rights for impairment, and noted that no impairment existed as of January 1, 2018. See Note 1 — Basis of Presentation in the Notes to Consolidated Financial Statements for additional information regarding the impact of this change in estimate.

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Recent Accounting Pronouncements

See Note 1 — Basis of Presentation in the Notes to Consolidated Financial Statements for information on recent accounting pronouncements.

Regulatory Matters

FCC Mobility Fund Phase II Order

In October 2011, the FCC adopted its USF/Intercarrier Compensation Transformation Order (USF Order). Pursuant to this order, U.S. Cellular's then current Federal USF support was to be phased down at the rate of 20% per year beginning July 1, 2012. The USF Order contemplated the establishment of a new mobile USF program and provided for a pause in the phase down if that program was not timely implemented by July 2014. The Phase II Connect America Mobility Fund (MF2) was not operational as of July 2014 and, therefore, as provided by the USF Order, the phase down was suspended at 60% of the baseline amount until such time as the FCC had taken steps to establish the MF2. In February 2017, the FCC adopted the MF2 Order addressing the framework for MF2 and the resumption of the phase down. The MF2 Order establishes a support fund of \$453 million annually for ten years to be distributed through a market-based, multi-round reverse auction. For areas that receive support under MF2, legacy support to MF2 Auction winners will terminate and be replaced with MF2 support effective the first day of the month following release of the public notice closing the auction. Legacy support in areas where the legacy support recipient is not an MF2 winner will be subject to phase down over two years unless there is no winner in a particular census block, in which case it will be continued for one legacy support recipient only. The MF2 Order further states that the phase down of legacy support for areas that were not eligible for support under MF2 will commence on the first day of the month following the completion of the auction and will conclude two years later.

In August 2017, the FCC adopted the MF2 Challenge Process Order, which laid out procedures for establishing areas that would be eligible for support under the MF2 program. This will include a collection process to be followed by a challenge window, a challenge response window, and finally adjudication of any coverage disputes. In September 2017, the FCC issued a public notice initiating the collection of 4G LTE coverage data. Responses submitting the collected data were due on January 4, 2018.

On February 27, 2018, the FCC issued public notices providing detailed challenge procedures and a schedule for the challenge process. Pursuant to these notices, the challenge window began on March 29, 2018 and will close on August 27, 2018. No earlier than thirty days after the FCC processes the challenges, it will open a thirty-day challenge response window. Following the challenge response window, the FCC will adjudicate any disputes. This entire process must be completed before an auction can be commenced.

U.S. Cellular cannot predict at this time when the MF2 auction will occur, when the phase down period for its existing legacy support from the Federal USF will commence, or whether the MF2 auction will provide opportunities to U.S. Cellular to offset any loss in existing support. U.S. Cellular currently expects that its legacy support will continue at the 2017 level through 2018.

FCC Connect America Fund

In March 2018, the FCC approved an order authorizing over \$360 million (over a 10 year period) in additional funding for companies that elected Alternative Connect America Model (A-CAM) support. The order becomes

effective when published in the Federal Register. Once the Wireline Competition Bureau issues a notice announcing revised support amounts and corresponding buildout obligations for acceptance, A-CAM companies will have 45 days to accept the offer of additional support. The additional funding is retroactive to January 1, 2017, the original effective date of the program.

Millimeter Wave Spectrum Auctions

At its open meeting on April 17, 2018, the FCC adopted a public notice seeking comment on procedures for two auctions of spectrum licenses in the 28 GHz and 24 GHz bands. As proposed, the 28GHz auction (Auction 101) would commence on November 14, 2018, and would offer two 425 MHz licenses in the 28 GHz band over portions of the United States that do not have incumbent licensees. Following the completion of Auction 101, the FCC would commence the 24 GHz auction (Auction 102), which would offer up to seven 100 MHz licenses in the 24 GHz band in Partial Economic Areas covering most of the United States.

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Private Securities Litigation Reform Act of 1995

Safe Harbor Cautionary Statement

This Form 10-Q, including exhibits, contains statements that are not based on historical facts and represent forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, that address activities, events or developments that TDS intends, expects, projects, believes, estimates, plans or anticipates will or may occur in the future are forward-looking statements. The words “believes,” “anticipates,” “estimates,” “expects,” “plans,” “intends,” “projects” and similar expressions intended to identify these forward-looking statements, but are not the exclusive means of identifying them. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause 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 risks, uncertainties and other factors include those set forth below, as more fully described under “Risk Factors” in TDS’ Form 10-K for the year ended December 31, 2017. Each of the following risks could have a material adverse effect on TDS’ business, financial condition or results of operations. However, such factors are not necessarily all of the important factors that could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the forward-looking statements contained in this document. Other unknown or unpredictable factors also could have material adverse effects on future results, performance or achievements. TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. You should carefully consider the Risk Factors in TDS’ Form 10-K for the year ended December 31, 2017, the following factors and other information contained in, or incorporated by reference into, this Form 10-Q to understand the material risks relating to TDS’ business, financial condition or results of operations.

- ◆ Intense competition in the markets in which TDS operates could adversely affect TDS’ revenues or increase its costs to compete.
- ◆ A failure by TDS to successfully execute its business strategy (including planned acquisitions, spectrum acquisitions, divestitures and exchanges) or allocate resources or capital could have an adverse effect on TDS’ business, financial condition or results of operations.
- ◆ Uncertainty in TDS’ future cash flow and liquidity or in the ability to access capital, deterioration in the capital markets, other changes in TDS’ performance or market conditions, changes in TDS’ credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development or acquisition programs, reduce the acquisition of spectrum licenses, and/or reduce or cease share repurchases and/or the payment of dividends.
- ◆ TDS has a significant amount of indebtedness which could adversely affect its financial performance and in turn adversely affect its ability to make payments on its indebtedness, comply with terms of debt covenants and incur additional debt.
- ◆ Changes in roaming practices or other factors could cause TDS’ roaming revenues to decline from current levels, roaming expenses to increase from current levels and/or impact TDS’ ability to service its customers in geographic areas where TDS does not have its own network, which could have an adverse effect on TDS’ business, financial condition or results of operations.
- ◆ A failure by TDS to obtain access to adequate radio spectrum to meet current or anticipated future needs and/or to accurately predict future needs for radio spectrum could have an adverse effect on TDS’ business,

financial condition or results of operations.

- ◆ To the extent conducted by the FCC, TDS may participate in FCC auctions for additional spectrum or for funding in certain Universal Service programs in the future directly or indirectly and, during certain periods, will be subject to the FCC's anti-collusion rules, which could have an adverse effect on TDS.
- ◆ Failure by TDS to timely or fully comply with any existing applicable legislative and/or regulatory requirements or changes thereto could adversely affect TDS' business, financial condition or results of operations.
- ◆ An inability to attract people of outstanding potential, to develop their potential through education and assignments, and to retain them by keeping them engaged, challenged and properly rewarded could have an adverse effect on TDS' business, financial condition or results of operations.
- ◆ TDS' assets and revenue are concentrated primarily in the U.S. telecommunications industry. Consequently, its operating results may fluctuate based on factors related primarily to conditions in this industry.
- ◆ TDS' smaller scale relative to larger competitors that may have greater financial and other resources than TDS could cause TDS to be unable to compete successfully, which could adversely affect its business, financial condition or results of operations.
- ◆ Changes in various business factors, including changes in demand, customer preferences and perceptions, price competition, churn from customer switching activity and other factors, could have an adverse effect on TDS' business, financial condition or results of operations.

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- ◆ Advances or changes in technology could render certain technologies used by TDS obsolete, could put TDS at a competitive disadvantage, could reduce TDS' revenues or could increase its costs of doing business.
- ◆ Complexities associated with deploying new technologies present substantial risk and TDS' investments in unproven technologies may not produce the benefits that TDS expects.
- ◆ TDS receives regulatory support and is subject to numerous surcharges and fees from federal, state and local governments, and the applicability and the amount of the support and fees are subject to great uncertainty, which could have an adverse effect on TDS' business, financial condition or results of operations.
- ◆ Performance under device purchase agreements could have a material adverse impact on TDS' business, financial condition or results of operations.
- ◆ Changes in TDS' enterprise value, changes in the market supply or demand for wireless licenses, wireline or cable markets or IT service providers, adverse developments in the businesses or the industries in which TDS is involved and/or other factors could require TDS to recognize impairments in the carrying value of its licenses, goodwill, franchise rights and/or physical assets or require re-evaluation of the indefinite-lived nature of such assets.
- ◆ Costs, integration problems or other factors associated with acquisitions, divestitures or exchanges of properties or licenses and/or expansion of TDS' businesses could have an adverse effect on TDS' business, financial condition or results of operations.
- ◆ A failure by TDS to complete significant network construction and systems implementation activities as part of its plans to improve the quality, coverage, capabilities and capacity of its network, support and other systems and infrastructure could have an adverse effect on its operations.
- ◆ Difficulties involving third parties with which TDS does business, including changes in TDS' relationships with or financial or operational difficulties of key suppliers or independent agents and third party national retailers who market TDS' services, could adversely affect TDS' business, financial condition or results of operations.
- ◆ TDS has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on TDS' financial condition or results of operations.
- ◆ A failure by TDS to maintain flexible and capable telecommunication networks or information technology, or a material disruption thereof, could have an adverse effect on TDS' business, financial condition or results of operations.
- ◆ TDS has experienced and, in the future, expects to experience cyber-attacks or other breaches of network or information technology security of varying degrees on a regular basis, which could have an adverse effect on TDS' business, financial condition or results of operations.
- ◆ The market price of TDS' Common Shares is subject to fluctuations due to a variety of factors.
- ◆ Changes in facts or circumstances, including new or additional information, could require TDS to record charges relating to adjustments of amounts reflected in the financial statements, which could have an adverse effect on TDS' business, financial condition or results of operations.
- ◆ Disruption in credit or other financial markets, a deterioration of U.S. or global economic conditions or other events could, among other things, impede TDS' access to or increase the cost of financing its operating and investment activities and/or result in reduced revenues and lower operating income and cash flows, which would have an adverse effect on TDS' business, financial condition or results of operations.
- ◆ Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on TDS' business, financial condition or results of operations.
- ◆ The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from wireless devices and/or cell sites cause harmful health consequences,

including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on TDS' wireless business, financial condition or results of operations.

- ◆ Claims of infringement of intellectual property and proprietary rights of others, primarily involving patent infringement claims, could prevent TDS from using necessary technology to provide products or services or subject TDS to expensive intellectual property litigation or monetary penalties, which could have an adverse effect on TDS' business, financial condition or results of operations.
- ◆ Certain matters, such as control by the TDS Voting Trust and provisions in the TDS Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of TDS.
- ◆ Any of the foregoing events or other events could cause revenues, earnings, capital expenditures and/or any other financial or statistical information to vary from TDS' forward-looking estimates by a material amount.

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Risk Factors

In addition to the information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in TDS’ Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect TDS’ business, financial condition or future results. The risks described in this Form 10-Q and the Form 10-K for the year ended December 31, 2017, may not be the only risks that could affect TDS. Additional unidentified or unrecognized risks and uncertainties could materially adversely affect TDS’ business, financial condition and/or operating results. Subject to the foregoing, TDS has not identified for disclosure any material changes to the risk factors as previously disclosed in TDS’ Annual Report on Form 10-K for the year ended December 31, 2017.

Quantitative and Qualitative Disclosures about Market Risk

Market Risk

Refer to the disclosure under Market Risk in TDS’ Form 10-K for the year ended December 31, 2017, for additional information, including information regarding required principal payments and the weighted average interest rates related to TDS’ Long-term debt. There have been no material changes to such information since December 31, 2017.

See Note 3 — Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information related to the fair value of TDS’ Long-term debt as of March 31, 2018.

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Financial Statements

Telephone and Data Systems, Inc.

Consolidated Statement of Operations

(Unaudited)

	Three Months Ended March 31, 2018 2017	
(Dollars and shares in millions, except per share amounts)		
Operating revenues		
Service	\$978	\$997
Equipment and product sales	247	241
Total operating revenues	1,225	1,238
Operating expenses		
Cost of services (excluding Depreciation, amortization and accretion reported below)	288	282
Cost of equipment and products	246	270
Selling, general and administrative	395	407
Depreciation, amortization and	221	211

accretion		
(Gain) loss on		
asset disposals,	2	4
net		
(Gain) loss on		
license sales and	(7)	(17)
exchanges, net		
Total		
operating	1,145	1,157
expenses		
Operating income	80	81
Investment and		
other income		
(expense)		
Equity in		
earnings of		
unconsolidated	38	32
entities		
Interest and		
dividend income	5	4
Interest expense	(43)	(42)
Other, net	1	2
Total		
investment		
and other	1	(4)
income		
(expense)		
Income before		
income taxes	81	77
Income tax		
expense	24	34
Net income	57	43
Less: Net income		
attributable to		
noncontrolling		
interests, net of		
tax	18	6
Net income		
attributable to	39	37
TDS shareholders		
TDS Preferred		
dividend	—	—
requirement		
Net income		
available to TDS	\$39	\$37
common		
shareholders		

Basic weighted average shares outstanding	111	110
Basic earnings per share available to TDS common	\$0.35	\$0.34

shareholders

Diluted weighted average shares outstanding	113	112
Diluted earnings per share available to TDS common	\$0.34	\$0.33

shareholders

Dividends per share to TDS shareholders	\$0.160	\$0.155
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The accompanying notes are an integral part of these consolidated financial statements.

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Telephone and Data Systems, Inc.

Consolidated Statement of Comprehensive Income

(Unaudited)

	Three Months Ended March 31, 2018 2017	
(Dollars in millions)		
Net income	\$57	\$43
Net change in accumulated other comprehensive income		
Change related to retirement plan Amounts included in net periodic benefit cost for the period		
Amortization of prior service cost	(1)	(1)
Comprehensive income	56	42
Less: Net income attributable to noncontrolling interests, net of tax	18	6
Comprehensive income attributable to TDS shareholders	\$38	\$36

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

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Telephone and Data Systems, Inc.

Consolidated Statement of Cash Flows

(Unaudited)

	Three Months Ended March 31, 2018 2017	
(Dollars in millions)		
Cash flows from operating activities		
Net income	\$57	\$43
Add (deduct) adjustments to reconcile net income to net cash flows from operating activities		
Depreciation, amortization and accretion	221	211
Bad debts expense	20	24
Stock-based compensation expense	10	11
Deferred income taxes, net	26	(1)
Equity in earnings of unconsolidated entities	(38)	(32)
Distributions from unconsolidated entities	17	11
(Gain) loss on asset disposals, net	2	4
(Gain) loss on license sales and exchanges, net	(7)	(17)
Noncash interest	1	1
Changes in assets and liabilities from operations		
Accounts receivable	77	28
Equipment installment plans receivable	(17)	(44)
Inventory	(8)	–
Accounts payable	(32)	(75)
Customer deposits and deferred revenues	(28)	(12)
Accrued taxes	(24)	33
Accrued interest	11	9
Other assets and liabilities	(74)	(57)
Net cash provided by operating activities	214	137
Cash flows from investing activities		
Cash paid for additions to property, plant and equipment	(131)	(127)
Cash paid for acquisitions and licenses	(9)	(14)
Cash received for investments	100	–
	4	16

Cash received from divestitures and exchanges		
Net cash used in investing activities	(36)	(125)
Cash flows from financing activities		
Repayment of long-term debt	(5)	(3)
TDS Common Shares reissued for benefit plans, net of tax payments	9	1
U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	2	3
Dividends paid to TDS shareholders	(18)	(17)
Other financing activities	(5)	–
Net cash used in financing activities	(17)	(16)
Net increase (decrease) in cash, cash equivalents and restricted cash	161	(4)
Cash, cash equivalents and restricted cash		
Beginning of period	622	904
End of period	\$783	\$900

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

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Telephone and Data Systems, Inc.

Consolidated Balance Sheet — Assets

(Unaudited)

	March 31, 2018	December 31, 2017
(Dollars in millions)		
Current assets		
Cash and cash equivalents	\$779	\$ 619
Short-term investments	—	100
Accounts receivable		
Customers and agents, less allowances of \$62 and \$61, respectively	867	861
Other, less allowances of \$2 and \$2, respectively	88	100
Inventory, net	153	145
Prepaid expenses	104	112
Income taxes receivable	10	2
Other current assets	42	27
Total current assets	2,043	1,966
Assets held for sale	6	10
Licenses	2,240	2,232
Goodwill	509	509
Other intangible assets, net of accumulated amortization of \$148 and \$142, respectively	273	279

Investments in
unconsolidated entities 488