TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-Q
August 03, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

[x]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 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 of incorporation or organization)	(IRS Employer Identification No.)

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.	[x]	[ ]
Indicate by check mark whether the registrant has submitted electronically every Interactive	[x]	[ ]

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 such files).

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	[x]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]
		Emerging growth company	[ ]

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. [ ]

[ ] [x]

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 June 30, 2018
Common Shares, $0.01 par value	104,636,089 Shares
Series A Common Shares, $0.01 par value	7,273,678 Shares

Telephone and Data Systems, Inc.

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For the Period Ended June 30, 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 and six months ended June 30, 2018, to the three and six months ended June 30, 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 12 — 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. To date, VoLTE technology has been launched successfully in California, Iowa, Oregon, Washington 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 video, 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.
- ♦ TDS Telecom's Wireline and Cable businesses are investing in a Cloud TV platform to enhance video services.

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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.
- Auctions 1000, 1001, and 1002 – Auction 1000 is an FCC auction of 600 MHz spectrum licenses that started in 2016 and concluded in 2017 involving: (1) a “reverse auction” in which broadcast television licensees submitted bids to voluntarily relinquish spectrum usage rights in exchange for payments (referred to as Auction 1001); (2) a “repacking” of the broadcast television bands in order to free up certain broadcast spectrum for other uses; and (3) a “forward auction” of licenses for spectrum cleared through this process to be used for wireless communications (referred to as Auction 1002).
- 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, watches, 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. Connections include all types of devices that connect directly to the U.S. Cellular network.

- ♦ 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.
- ♦ 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 June 30,			Six Months Ended June 30,		
	2018[1]	2017	2018 vs. 2017	2018[1]	2017	2018 vs. 2017
(Dollars in millions)						
Operating revenues						
U.S. Cellular	$974	$963	1%	$1,915	$1,899	1%
TDS Telecom	230	231	–	461	459	–
All other2	51	53	(4)%	104	127	(18)%
Total operating revenues	1,255	1,247	1%	2,480	2,485	–
Operating expenses						
U.S. Cellular	918	958	(4)%	1,794	1,840	(2)%
TDS Telecom	212	200	6%	417	398	5%
All other2	64	62	4%	128	138	(8)%
Total operating expenses	1,194	1,220	(2)%	2,339	2,376	(2)%
Operating income (loss)						
U.S. Cellular	56	5	>100%	121	59	>100%
TDS Telecom	18	31	(41)%	43	61	(29)%
All other2	(13)	(9)	(53)%	(23)	(11)	>(100)%
Total operating income	61	27	>100%	141	109	29%
Investment and other income (expense)						
Equity in earnings of unconsolidated entities	40	33	23%	78	65	20%
Interest and dividend income	6	4	65%	11	8	48%
Interest expense	(43)	(43)	(1)%	(86)	(85)	(1)%
Other, net	1	1	(33)%	2	2	(39)%
Total investment and other income	4	(5)	>100%	5	(10)	>100%

(expense)						
Income before income taxes	65	22	>100%	146	99	47%
Income tax expense	21	10	>100%	45	44	1%
Net income	44	12	>100%	101	55	84%
Less: Net income attributable to noncontrolling interests, net of tax	11	2	>100%	29	8	>100%
Net income attributable to TDS shareholders	$33	$10	>100%	$72	$47	52%
Adjusted OIBDA (Non-GAAP)3	$272	$242	12%	$568	$522	9%
Adjusted EBITDA (Non-GAAP)3	$319	$280	14%	$659	$597	10%
Capital expenditures	$138	$134	3%	$253	$230	10%

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 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 $20 million and $17 million for the three months ended June 30, 2018 and 2017, respectively, and $38 and $33 million for the six months ended June 30, 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 and six months ended June 30, 2018, was 31.5% and 30.5%, respectively. The effective tax rate for the three and six months ended June 30, 2017, was 45.0% and 44.4%, 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. Due to difficulty in reliably projecting an annual tax rate, TDS calculated income taxes for the six months ended June 30, 2017, based on an estimated year-to-date tax rate.

The bonus depreciation provision of the Tax Act is expected to substantially reduce TDS' current federal income tax liability in 2018. 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(Dollars in millions)				
U.S. Cellular noncontrolling public shareholders'	$8	$ 2	$16	$ 6
Noncontrolling shareholders' or partners'	3	–	13	2
Net income attributable to noncontrolling interests, net of tax	$11	$ 2	$29	$ 8

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 during the six months ended June 30, 2018, due primarily to an out-of-period adjustment recorded in the first quarter of 2018. TDS determined that this adjustment was not material to any of the periods impacted. See Note 10 — Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

Three and Six Months Ended

Net income and Adjusted EBITDA increased due primarily to improved Operating income levels at U.S. Cellular as a result of cost savings initiatives and a decrease in Cost of equipment sold.

*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 5,700 associates
- ♦ 6,478 cell sites including 4,105 owned towers in service

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Operational Overview

As of June 30,	2018	2017
Retail Connections – End of Period		
Postpaid	4,468,000	4,478,000
Prepaid	527,000	484,000
Total	4,995,000	4,962,000

	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Postpaid Activity:				
Gross Additions	146,000	174,000	275,000	320,000
Net Additions (Losses)	(13,000)	23,000	(50,000)	(4,000)
Churn	1.19%	1.13%	1.21%	1.21%

The decrease in postpaid net additions for the three months ended June 30, 2018, when compared to the same period last year, was driven mainly by both lower handset and tablet gross additions as well as an increase in tablet churn. The decline in tablet gross additions reflects U.S. Cellular‘s decision to curtail promotions of heavily discounted tablets.

The increase in postpaid net losses for the six months ended June 30, 2018, when compared to the same period last year, was driven mainly by lower tablet gross additions and higher tablet churn.

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Postpaid Revenue

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Average Revenue Per User (ARPU)	$44.74	$44.60	$44.54	$45.00
Average Billings Per User (ABPU)[1]	$57.75	$55.19	$57.42	$55.49
Average Revenue Per Account (ARPA)	$118.57	$119.73	$118.38	$120.46
Average Billings Per Account (ABPA)[1]	$153.03	$148.15	$152.63	$148.54

1 Postpaid ABPU and Postpaid ABPA are non-GAAP financial measures. Refer to Supplemental 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 increased for the three months ended June 30, 2018, when compared to the same period last year, driven by increases in device protection plan and regulatory recovery revenues. Such factors were partially offset by the impact of adopting the provisions of ASU 2014-09. Postpaid ARPA decreased for the three months ended June 30, 2018, when compared to the same period last year, due primarily to a decrease in postpaid connections per account driven by higher tablet churn. Application of the new accounting standard had the impact of reducing ARPU and ARPA for the three months ended June 30, 2018, by $0.41 and $1.07, respectively.

Postpaid ARPU and Postpaid ARPA decreased for the six months ended June 30, 2018, when compared to the same periods last year, due primarily to the impact of adopting the provisions of ASU 2014-09, as well as the impact of overall price reductions on plan offerings. Such factors were partially offset by the increases in device protection plan and regulatory recovery revenues. Application of the new accounting standard had the impact of reducing ARPU and ARPA for the six months ended June 30, 2018, by $0.47 and $1.24, respectively.

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.

Postpaid ABPU and ABPA increased for the three and six months ended June 30, 2018, due primarily to an increase in equipment installment plan billings driven primarily by increased penetration of equipment installment plans.

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Financial Overview — U.S. Cellular

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018[1]	2017	2018 vs. 2017	2018[1]	2017	2018 vs. 2017
(Dollars in millions)						
Retail service	$ 652	$ 647	1%	$ 1,301	$ 1,304	–
Inbound roaming	39	31	26%	66	58	15%
Other	50	62	(20)%	98	124	(22)%
Service revenues	741	740	–	1,465	1,486	(1)%
Equipment sales	233	223	5%	450	413	9%
Total operating revenues	974	963	1%	1,915	1,899	1%
System operations (excluding Depreciation, amortization and accretion reported below)	187	189	(1)%	365	364	–
Cost of equipment sold	240	260	(8)%	459	488	(6)%
Selling, general and administrative	342	351	(2)%	668	691	(3)%
Depreciation, amortization and accretion	159	155	3%	317	307	3%
(Gain) loss on asset disposals, net	1	5	(84)%	2	9	(75)%
(Gain) loss on license sales and exchanges, net	(11)	(2)	>(100)%	(17)	(19)	8%
Total operating	918	958	(4)%	1,794	1,840	(2)%

expenses

Operating income	$ 56	$ 5	>100%	$ 121	$ 59	>100%
Net income	$ 52	$ 12	>100%	$ 107	$ 40	>100%
Adjusted OIBDA (Non-GAAP)2	$ 205	$ 163	26%	$ 423	$ 356	19%
Adjusted EBITDA (Non-GAAP)2	$ 248	$ 198	25%	$ 507	$ 426	19%
Capital expenditures	$ 86	$ 84	2%	$ 155	$ 145	7%

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.

2 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, 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

Retail service revenues increased for the three months ended June 30, 2018, and decreased for the six months ended June 30, 2018, as a result of the changes in Postpaid ARPU as previously discussed in the Operational Overview section.

Inbound roaming revenues increased for the three and six months ended June 30, 2018, primarily driven by higher data roaming usage.

Other service revenues decreased for the three and six months ended June 30, 2018, reflecting the exclusion of imputed interest income in 2018 due to the impact of adopting the provisions of ASU 2014-09. Federal USF revenues remained flat at $23 million and $46 million for the three and six months ended June 30, 2018. 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 and six months ended June 30, 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 revenue. 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.

Cost of equipment sold

Cost of equipment sold decreased for the three and six months ended June 30, 2018, due primarily 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 higher average cost per device sold, an increase in accessories cost, and a mix shift from feature phones and connected devices to higher cost smartphones.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by $9 million and $23 million for the three and six months ended June 30, 2018, respectively, due to lower commissions, advertising and bad debts expenses.

Depreciation, amortization and accretion

Depreciation, amortization, and accretion increased for the three and six months ended June 30, 2018, due primarily to an increase in amortization expense related to billing system upgrades.

(Gain) loss on asset disposals, net

Loss on asset disposals, net decreased primarily as a result of fewer disposals of certain network assets.

(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 June 30,			Six Months Ended June 30,		
	2018[1]	2017	2018 vs. 2017	2018[1]	2017	2018 vs. 2017
(Dollars in millions)						
Operating revenues						
Wireline	$174	$181	(4)%	$349	$360	(3)%
Cable	57	51	12%	112	100	12%
TDS Telecom operating revenues	230	231	–	461	459	–
Operating expenses						
Wireline	153	153	–	302	304	(1)%
Cable	59	48	24%	116	95	22%
TDS Telecom operating expenses	212	200	6%	417	398	5%
TDS Telecom operating income	$18	$31	(41)%	$43	$61	(29)%
Net income	$16	$20	(22)%	$37	$40	(7)%
Adjusted OIBDA (Non-GAAP)2	$73	$80	(9)%	$152	$160	(5)%
Adjusted EBITDA (Non-GAAP)2	$75	$82	(8)%	$156	$164	(4)%
Capital expenditures	$46	$45	4%	$87	$71	22%

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.

Three and Six Months Ended

Operating revenues were flat for the three and six months ended June 30, 2018. Lower Wireline wholesale special access revenue and legacy voice and commercial products decreased revenues offset by Cable broadband and Cable and Wireline video connection growth and price increases.

Total operating expenses

Operating expenses increased for the three and six months ended June 30, 2018, due primarily to higher Wireline and Cable video programming costs, Wireline network maintenance and Cable IT-related expenses. In addition, operating expenses increased due to the impacts of adopting the provisions of ASU 2014-09. See Note 2 — Revenue Recognition in the Notes to Consolidated Financial Statements for additional information.

Capital expenditures

Capital spending increased for the three and six months ended June 30, 2018, to support strategic build-outs including market expansions, A-CAM and Cloud TV.

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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 60% choosing speeds of 10 Mbps or greater and 28% choosing speeds of 50 Mbps or greater.

Increases in broadband speeds and video connection growth drove increases in average residential revenue per connection.

Total residential connections decreased by 2% 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 June 30,			Six Months Ended June 30,		
	2018[1]	2017	2018 vs. 2017	2018[1]	2017	2018 vs. 2017
(Dollars in millions)						
Residential	$80	$81	(1)%	$160	$160	–
Commercial	46	50	(8)%	94	101	(7)%
Wholesale	46	49	(5)%	94	98	(5)%
Service revenues	173	180	(4)%	348	359	(3)%
Equipment and product sales	–	–	53%	1	1	39%
Total operating revenues	174	181	(4)%	349	360	(3)%
Cost of services (excluding Depreciation, amortization and accretion reported below)	67	65	2%	131	129	2%
Cost of equipment and products	–	1	(41)%	1	1	(32)%
Selling, general and administrative	50	49	1%	97	97	(1)%
Depreciation, amortization and accretion	36	37	(4)%	72	76	(5)%
(Gain) loss on asset disposals,	1	–	94%	1	1	17%

net						
Total operating expenses	153	153	–	302	304	(1)%
Operating income	$21	$28	(25)%	$47	$56	(16)%
Income before income taxes	$24	$30	(21)%	$52	$60	(13)%
Adjusted OIBDA (Non-GAAP)2	$57	$65	(13)%	$120	$133	(9)%
Adjusted EBITDA (Non-GAAP)2	$59	$67	(12)%	$124	$137	(9)%
Capital expenditures	$33	$33	2%	$62	$50	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 revenues consist of:

- ♦ Broadband services, including fiber-based and other digital, premium and enhanced data services
- ♦ Video services
- ♦ Voice services

Commercial revenues consist of:

- TDS managedIP 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 carrying data and voice traffic 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 decreased for the three and six months ended June 30, 2018, as declines in voice connections exceeded growth in video connections and rate increases. Broadband revenues increased due to increases in pricing as customers select faster speeds. Average voice connections declined 7% while average video connections grew 11%.

Commercial revenues decreased for the three and six months ended June 30, 2018, due to declining connections and services mostly in CLEC markets.

Wholesale revenues decreased for the three and six months ended June 30, 2018, due primarily to decreases in network access and special access services.

Cost of services

Cost of services increased for the three and six months ended June 30, 2018, due to higher programming charges related to growth in video, partially offset by a decrease in the costs of purchasing unbundled network elements, provisioning circuits and providing long-distance services.

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, including two small tuck-in acquisitions made in Q4 2017, grew 9% due primarily to a 14% increase in broadband connections.

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Financial Overview — Cable

Components of Operating Income

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018[1]	2017	2018 vs. 2017	2018[1]	2017	2018 vs. 2017
(Dollars in millions)						
Residential	$47	$41	12%	$92	$82	12%
Commercial	10	9	7%	20	18	10%
Total operating revenues	57	51	12%	112	100	12%
Cost of services (excluding Depreciation, amortization and accretion reported below)	27	24	11%	52	48	9%
Selling, general and administrative	15	13	14%	28	25	10%
Depreciation, amortization and accretion	18	11	63%	35	21	67%
(Gain) loss on asset disposals, net	–	–	(12)%	1	1	(27)%
Total operating expenses	59	48	24%	116	95	22%
Operating income (loss)	$(3)	$3	>(100)%	$(4)	$5	>(100)%
Income (loss)	$(2)	$3	>(100)%	$(4)	$5	>(100)%

before income taxes						
Adjusted OIBDA (Non-GAAP)2	$16	$14	10%	$32	$27	18%
Adjusted EBITDA (Non-GAAP)2	$16	$14	10%	$32	$27	19%
Capital expenditures	$13	$12	9%	$24	$21	15%

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 for the three and six months ended June 30, 2018, due to tuck-in acquisitions, growth in connections and price increases.

Commercial revenues increased for the three and six months ended June 30, 2018, due primarily to video price increases and increased ad sales.

Cost of services

Cost of services increased for the three and six months ended June 30, 2018, due primarily to increases in video programming fees and circuits expense.

Selling, general and administrative

Selling, general and administrative expenses increased for the three and six months ended June 30, 2018, due to increased IT-related expenses due to a billing conversion and higher property and other taxes.

Depreciation, amortization and accretion

Depreciation, amortization and accretion increased in 2018 due to the amortization of franchise rights and a reduction in depreciable lives of customer premise equipment. Cable changed its estimated useful life for 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. 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 agreements, 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 agreements, receivables securitization agreement 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 agreements, to put in place new credit agreements, 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 June 30, 2018, TDS' consolidated Cash and cash equivalents totaled $873 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

In May 2018, TDS entered into a new $400 million revolving credit agreement with certain lenders and other parties and U.S. Cellular entered into a new $300 million revolving credit agreement with certain lenders and other parties. Amounts under both of the new revolving credit agreements are available for general corporate purposes, including acquisitions, spectrum purchases and capital expenditures, and may be borrowed, repaid and reborrowed from time to time until maturity in May 2023. As a result of the new agreements, TDS' and U.S. Cellular's previous revolving credit agreements due to expire in June 2021 were terminated. As of June 30, 2018, there were no outstanding borrowings under the revolving credit agreements, except for letters of credit, and TDS' and U.S. Cellular's unused borrowing capacity was $399 million and $298 million, respectively. See Note 9 — Debt in the Notes to Consolidated Financial Statements for additional information.

In May 2018, U.S. Cellular also amended its senior term loan credit agreement in order to align with the new revolving credit agreement. There were no significant changes to the maturity date or other key terms of the agreement.

TDS and U.S. Cellular believe they were in compliance with all of the financial covenants and requirements set forth in their revolving credit agreements and the senior term loan credit agreement as of June 30, 2018.

U.S. Cellular, through its subsidiaries, also has a receivables securitization agreement to permit securitized borrowings using its equipment installment plan receivables for general corporate purposes. The unused capacity under this agreement was $200 million as of June 30, 2018, subject to sufficient collateral to satisfy the asset borrowing base provisions of the agreement. As of June 30, 2018, the USCC Master Note Trust (Trust) held $27 million of assets available to be pledged as collateral for the receivables securitization agreement. U.S. Cellular believes it was in compliance with all of the financial covenants and requirements set forth in its receivables securitization agreement 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 $219 million, which represent 9% of the total gross long-term debt obligation at June 30, 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 six months ended June 30, 2018 and 2017, were as follows:

U.S. Cellular's capital expenditures for the six months ended June 30, 2018 and 2017, were $155 million and $145 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 principally 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 six months ended June 30, 2018 and 2017, were $87 million and $71 million, respectively.

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

- Maintain and enhance existing infrastructure including build-out requirements to meet state broadband and Federal 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 agreements.

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 10 — 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 six months ended June 30, 2018, or in the year ended December 31, 2017.

As of June 30, 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 June 30, 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 June 30, 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.

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 six months ended June 30, 2018 and 2017.

2018 Commentary

TDS' Cash, cash equivalents and restricted cash increased $255 million in 2018. Net cash provided by operating activities was $463 million in 2018 due to net income of $101 million plus non-cash items of $442 million and distributions received from unconsolidated entities of $70 million, including $33 million in distributions from the LA Partnership. This was partially offset by changes in working capital items which decreased net cash by $150 million. The working capital changes were primarily influenced by an increase in equipment installment plan receivables and the timing of annual employee bonus payments and 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 $161 million. Cash paid in 2018 for additions to property, plant and equipment totaled $275 million. Cash paid for acquisitions and licenses was $10 million. This was partially offset by cash received from the redemption of short-term Treasury bills of $100 million and Cash received from divestitures and exchanges of $21 million.

Cash flows used for financing activities were $47 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 decreased $109 million in 2017. Net cash provided by operating activities was $358 million in 2017, due to net income of $55 million plus non-cash items of $398 million and distributions received from unconsolidated entities of $65 million, including $30 million in distributions from the LA Partnership. This was partially offset by changes in working capital items which decreased cash by $160 million. The working capital changes were due to a $107 million increase in equipment installment plan receivables and a $59 million decrease in accounts payable.

The net cash provided by operating activities was offset by Cash flows used for investing activities of $424 million. Cash paid for additions to property, plant and equipment in 2017 totaled $242 million. Cash paid for acquisitions and licenses was $200 million which included the remaining $186 million due to the FCC for licenses U.S. Cellular won in Auction 1002. This was partially offset by Cash received from divestitures and exchanges of $17 million.

Cash flows used for financing activities were $43 million in 2017, reflecting ordinary activity such as the payment of dividends and the scheduled repayments of debt.

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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 U.S. Treasury Bills with original maturities of six months.

Other assets and deferred charges

Other assets and deferred charges increased $164 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.

Accounts payable

Accounts payable decreased $72 million due primarily to reduction of expenses as well as payment timing differences.

Customer deposits and deferred revenues

Customer deposits and deferred revenues decreased $58 million due primarily to the reclassification of certain deferred revenues to Other current assets 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 $42 million due primarily to employee bonus payments in March 2018.

Deferred income tax liability, net

Deferred income tax liability, net, increased $84 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 12 — 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 June 30,		Six Months Ended June 30,	
TDS CONSOLIDATED	2018[1]	2017	2018[1]	2017
(Dollars in millions)				
Net income (GAAP)	$44	$12	$101	$55
Add back:				
Income tax expense	21	10	45	44
Interest expense	43	43	86	85
Depreciation, amortization and accretion	220	211	441	422
EBITDA (Non-GAAP)	328	276	673	606
Add back or deduct:				
(Gain) loss on asset disposals, net	2	6	3	10
(Gain) loss on license sales and exchanges, net	(11)	(2)	(17)	(19)
Adjusted EBITDA (Non-GAAP)	319	280	659	597
Deduct:				
Equity in earnings of unconsolidated entities	40	33	78	65
Interest and dividend income	6	4	11	8
Other, net	1	1	2	2
Adjusted OIBDA (Non-GAAP)	272	242	568	522
Deduct:				
Depreciation, amortization and accretion	220	211	441	422
	2	6	3	10

(Gain) loss on asset disposals, net				
(Gain) loss on license sales and exchanges, net	(11)	(2)	(17)	(19)
Operating income (GAAP)	$61	$27	$141	$109

U.S. CELLULAR	Three Months Ended June 30, 2018[1]	2017	Six Months Ended June 30, 2018[1]	2017
(Dollars in millions)				
Net income (GAAP)	$52	$12	$107	$40
Add back:				
Income tax expense	18	–	40	33
Interest expense	29	28	58	56
Depreciation, amortization and accretion	159	155	317	307
EBITDA (Non-GAAP)	258	195	522	436
Add back or deduct:				
(Gain) loss on asset disposals, net	1	5	2	9
(Gain) loss on license sales and exchanges, net	(11)	(2)	(17)	(19)
Adjusted EBITDA (Non-GAAP)	248	198	507	426
Deduct:				
Equity in earnings of unconsolidated entities	40	33	78	66
Interest and dividend income	3	2	7	5
Other, net	–	–	(1)	(1)
Adjusted OIBDA (Non-GAAP)	205	163	423	356

Deduct:				
Depreciation, amortization and accretion	159	155	317	307
(Gain) loss on asset disposals, net	1	5	2	9
(Gain) loss on license sales and exchanges, net	(11)	(2)	(17)	(19)
Operating income (GAAP)	$56	$5	$121	$59

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TDS TELECOM	Three Months Ended June 30, 2018[1]	2017	Six Months Ended June 30, 2018[1]	2017
(Dollars in millions)				
Net income (GAAP)	$16	$20	$37	$40
Add back or deduct:				
Income tax expense	5	13	12	25
Interest expense	–	–	(1)	–
Depreciation, amortization and accretion	53	48	107	97
EBITDA (Non-GAAP)	74	81	155	162
Add back or deduct:				
(Gain) loss on asset disposals, net	1	1	1	1
Adjusted EBITDA (Non-GAAP)	75	82	156	164
Deduct:				
Interest and dividend income	2	1	3	2
Other, net	1	1	1	2
Adjusted OIBDA (Non-GAAP)	73	80	152	160
Deduct:				
Depreciation, amortization and accretion	53	48	107	97
(Gain) loss on asset disposals, net	1	1	1	1
Operating income (GAAP)	$18	$31	$43	$61

WIRELINE	Three Months Ended June 30,		Six Months Ended June 30,	
	2018[1]	2017	2018[1]	2017
(Dollars in millions)				
Income before income taxes (GAAP)	$24	$30	$52	$60
Add back or deduct:				
Interest expense	–	–	(1)	–
Depreciation, amortization and accretion	36	37	72	76
EBITDA (Non-GAAP)	59	67	124	136
Add back or deduct:				
(Gain) loss on asset disposals, net	1	–	1	1
Adjusted EBITDA (Non-GAAP)	59	67	124	137
Deduct:				
Interest and dividend income	2	1	3	2
Other, net	1	1	1	2
Adjusted OIBDA (Non-GAAP)	57	65	120	133
Deduct:				
Depreciation, amortization and accretion	36	37	72	76
(Gain) loss on asset disposals, net	1	–	1	1
Operating income (GAAP)	$21	$28	$47	$56

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CABLE	Three Months Ended June 30, 2018[1]	2017	Six Months Ended June 30, 2018[1]	2017
(Dollars in millions)				
Income (loss) before income taxes (GAAP)	$(2)	$3	$(4)	$5
Add back:				
Depreciation, amortization and accretion	18	11	35	21
EBITDA (Non-GAAP)	15	14	32	26
Add back or deduct:				
(Gain) loss on asset disposals, net	–	–	1	1
Adjusted EBITDA (Non-GAAP)	16	14	32	27
Deduct:				
Interest and dividend income	–	–	–	–
Adjusted OIBDA (Non-GAAP)	16	14		