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)

[x]	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 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 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	[x]	[ ]

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, 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	[ ]	(Do not check if a smaller reporting company)	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.	[ ]

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

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

Common Shares, $0.01 par value	104,307,311 Shares
Series A Common Shares, $0.01 par value	7,265,440 Shares

Telephone and Data Systems, Inc.

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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 other2	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 other2	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 other2	(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%

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 $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 31,	2018	2017
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

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 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)	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%

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, 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[1]	2017	2018 vs. 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.

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 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)			