

TELEPHONE & DATA SYSTEMS INC /DE/
Form 10-Q
October 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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 (IRS Employer
incorporation or Identification No.)
organization)

30 North LaSalle Street, Suite 4000, Chicago, Illinois
60602
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code:
(312) 630-1900

Indicate by check mark Yes No
• 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.

• whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

• 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 September 30, 2015
Common Shares, \$0.01 par value	101,556,713 Shares
Series A Common Shares, \$0.01 par value	7,204,168 Shares

Telephone and Data Systems, Inc.

Quarterly Report on Form 10-Q
For the Quarterly Period Ended September 30, 2015

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Part I. Financial Information

Item 1. Financial Statements

Telephone and Data Systems, Inc.

Consolidated Statement of Operations

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars and shares in thousands, except per share amounts)	2015	2014	2015	2014
Operating revenues				
Service	\$1,137,767	\$1,081,472	\$3,281,508	\$3,233,893
Equipment and product sales	236,031	198,551	620,278	478,484
Total operating revenues	1,373,798	1,280,023	3,901,786	3,712,377
Operating expenses				
Cost of services (excluding Depreciation, amortization and accretion reported below)	303,091	297,183	896,890	859,629
Cost of equipment and products	337,051	349,209	907,482	968,867
Selling, general and administrative	449,084	465,014	1,322,554	1,399,585
Depreciation, amortization and accretion	210,764	205,529	628,443	635,015
	—	84,000	—	84,000

Loss on impairment of assets				
(Gain) loss on asset disposals, net	4,919	9,293	15,048	19,626
(Gain) loss on sale of business and other exit costs, net	(559)	(4,790)	(129,931)	(9,079)
(Gain) loss on license sales and exchanges, net	(23,986)	—	(146,884)	(91,446)
Total operating expenses	1,280,364	1,405,438	3,493,602	3,866,197
Operating income (loss)	93,434	(125,415)	408,184	(153,820)
Investment and other income (expense)				
Equity in earnings of unconsolidated entities	39,770	36,081	109,823	108,198
Interest and dividend income	9,617	4,526	28,119	9,763
Interest expense	(35,043)	(27,170)	(102,792)	(83,775)
Other, net	(56)	69	142	279
Total investment and other income	14,288	13,506	35,292	34,465
Income (loss) before income taxes	107,722	(111,909)	443,476	(119,355)
Income tax expense	45,327	9,290	178,780	7,276
Net income (loss)	62,395	(121,199)	264,696	(126,631)
Less: Net income (loss) attributable to noncontrolling interests, net of tax	11,312	(5,169)	44,827	(6,817)
Net income (loss) attributable to TDS shareholders	51,083	(116,030)	219,869	(119,814)
	(12)	(12)	(37)	(37)

TDS Preferred
dividend
requirement
Net income (loss)
available to
common
shareholders

\$51,071	\$(116,042)	\$219,832	\$(119,851)
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Basic weighted
average shares
outstanding
Basic earnings
(loss) per share
attributable to
TDS

108,848	108,252	108,503	108,650
\$0.47	\$(1.07)	\$2.03	\$(1.10)

shareholders

Diluted weighted
average shares
outstanding
Diluted earnings
(loss) per share
attributable to
TDS

110,214	108,252	109,737	108,650
\$0.46	\$(1.07)	\$1.99	\$(1.10)

shareholders

Dividends per
share to TDS
shareholders

\$0.141	\$0.134	\$0.423	\$0.402
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The accompanying notes are an integral part of these consolidated financial statements.

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Telephone and Data Systems, Inc.

Consolidated Statement of Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Net income (loss)	\$62,395	\$(121,199)	\$264,696	\$(126,631)
Net change in accumulated other comprehensive income (loss)				
Change in net unrealized gain (loss) on equity investments	—	—	(353)	341
Change in foreign currency translation adjustment	23	38	20	17
Change related to retirement plan Amounts included in net periodic benefit cost for the period				
Change in prior service cost	(8,263)	(911)	(9,967)	(2,733)
Change in unrecognized net loss	(1,124)	322	(994)	966
	(9,387)	(589)	(10,961)	(1,767)
Changes in deferred income taxes	3,550	224	4,158	671
Change related to retirement plan, net of tax	(5,837)	(365)	(6,803)	(1,096)
Net change in accumulated other comprehensive income (loss)	(5,814)	(327)	(7,136)	(738)
Comprehensive income (loss)	56,581	(121,526)	257,560	(127,369)
Less: Comprehensive income (loss) attributable to noncontrolling interest	11,312	(5,169)	44,827	(6,817)
Comprehensive income (loss) attributable to TDS shareholders	\$45,269	\$(116,357)	\$212,733	\$(120,552)

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

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Telephone and Data Systems, Inc.

Consolidated Statement of Cash Flows

(Unaudited)

(Dollars in thousands)	Nine Months Ended	
	September 30, 2015	2014
Cash flows from operating activities		
Net income (loss)	\$264,696	\$(126,631)
Add (deduct) adjustments to reconcile net income (loss) to cash flows		
from operating activities		
Depreciation, amortization and accretion	628,443	635,015
Bad debts expense	83,368	79,218
Stock-based compensation expense	28,961	25,715
Deferred income taxes, net	(39,516)	(33,242)
Equity in earnings of unconsolidated entities	(109,823)	(108,198)
Distributions from unconsolidated entities	45,047	74,864
Loss on impairment of assets	—	84,000
(Gain) loss on asset disposals, net	15,048	19,626
(Gain) loss on sale of business and other exit costs, net	(129,931)	(9,079)
(Gain) loss on license sales and exchanges, net	(146,884)	(91,446)
Noncash interest expense	2,058	1,584
Other operating activities	(701)	13
Changes in assets and liabilities from operations		
Accounts receivable	(93,540)	70,653
Equipment installment plans receivable	(95,799)	(131,520)
Inventory	89,821	52,078
Accounts payable	125,123	11,034
Customer deposits and deferred revenues	(49,970)	28,684
Accrued taxes	211,803	14,307
Accrued interest	10,798	9,105
Other assets and liabilities	(112,084)	(109,569)
	726,918	496,211
Cash flows from investing activities		
Cash used for additions to property, plant and equipment	(558,112)	(553,718)
Cash paid for acquisitions and licenses	(286,710)	(284,089)
Cash received from divestitures and exchanges	324,772	151,369
Cash received for investments	—	10,000
Other investing activities	6,338	5,598
	(513,712)	(670,840)
Cash flows from financing activities		
Issuance of long-term debt	225,000	—

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Repayment of long-term debt	(615)	(819)
TDS Common Shares reissued for benefit plans, net of tax payments	11,409	486
U.S. Cellular Common Shares reissued for benefit plans, net of tax payments	(868)	1,150
Repurchase of TDS Common Shares	—	(31,293)
Repurchase of U.S. Cellular Common Shares	(4,070)	(14,698)
Dividends paid to TDS shareholders	(45,859)	(43,575)
Payment of debt issuance costs	(3,101)	(1,019)
Distributions to noncontrolling interests	(6,097)	(439)
Other financing activities	4,519	7,889
	180,318	(82,318)
Net increase (decrease) in cash and cash equivalents	393,524	(256,947)
Cash and cash equivalents		
Beginning of period	471,901	830,014
End of period	\$865,425	\$573,067

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

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Telephone and Data Systems, Inc.

Consolidated Balance Sheet — Assets

(Unaudited)

	September 30, 2015	December 31, 2014
(Dollars in thousands)		
Current assets		
Cash and cash equivalents	\$ 865,425	\$ 471,901
Accounts receivable		
Due from customers and agents, less allowances of \$45,565 and \$41,431, respectively	672,845	548,537
Other, less allowances of \$1,268 and \$1,141, respectively	102,684	135,144
Inventory, net	183,884	273,707
Net deferred income tax asset	98,343	107,686
Prepaid expenses	119,453	86,506
Income taxes receivable	—	113,708
Other current assets	30,425	29,766
	2,073,059	1,766,955
Assets held for sale	9,018	103,343

Investments		
Licenses	1,844,197	1,453,574
Goodwill	765,773	771,352
Franchise rights	244,300	244,300
Other intangible assets, net of accumulated amortization of \$143,286 and \$133,823, respectively	50,923	64,499
Investments in unconsolidated entities	386,153	321,729
Other investments	445	508
	3,291,791	2,855,962
Property, plant and equipment		
In service and under construction	11,307,122	11,194,044
Less:		
Accumulated depreciation	7,600,435	7,347,919
	3,706,687	3,846,125
Other assets and deferred charges	236,803	334,554
Total assets	\$9,317,358	\$8,906,939

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

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Telephone and Data Systems, Inc.

Consolidated Balance Sheet — Liabilities and Equity

(Unaudited)

	September 30, 2015	December 31, 2014
(Dollars and shares in thousands)		
Current liabilities		
Current portion of long-term debt	\$9,102	\$808
Accounts payable	433,620	387,125
Customer deposits and deferred revenues	274,293	324,318
Accrued interest	18,714	7,919
Accrued taxes	143,082	46,734
Accrued compensation	98,134	114,549
Other current liabilities	105,625	181,803
	1,082,570	1,063,256
Liabilities held for sale	687	21,643
Deferred liabilities and credits		
Net deferred income tax liability	888,499	941,519
Other deferred liabilities and credits	431,874	430,774
Long-term debt	2,209,992	1,993,586
Commitments and contingencies		
Noncontrolling interests with redemption features	910	1,150
Equity		
TDS shareholders' equity		
Series A Common and Common Shares		
Authorized 290,000 shares (25,000 Series A Common and 265,000 Common Shares)		
Issued 132,774 shares (7,204 Series A Common and 125,570 Common Shares) and		
132,749 shares (7,179 Series A Common and 125,570 Common Shares), respectively		
Outstanding 108,760 shares (7,204 Series A Common and 101,556 Common Shares) and		
107,899 shares (7,179 Series A Common and 100,720 Common Shares), respectively		
Par Value (\$.01 per share) \$1,327 (\$72 Series A Common and \$1,255 Common Shares)	1,327	1,327
Capital in excess of par value	2,353,054	2,336,511
Treasury shares at cost:		
24,014 and 24,850 Common Shares, respectively	(731,224)	(748,199)
Accumulated other comprehensive income (loss)	(684)	6,452

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Retained earnings	2,503,825	2,330,187
Total TDS shareholders' equity	4,126,298	3,926,278
Preferred shares	824	824
Noncontrolling interests	575,704	527,909
Total equity	4,702,826	4,455,011
Total liabilities and equity	\$9,317,358	\$8,906,939

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

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Telephone and Data Systems, Inc.

Consolidated Statement of Changes in Equity

(Unaudited)

	TDS Shareholders Series A Common and Common		Capital in excess of par value	Treasury shares	Accumulated other comprehensive income (loss)	Retained earnings	Total TDS shareholders' equity	Preferred shares	Noncontrolling interests	Total equity
(Dollars in thousands)	shares	par value	shares	shares	income (loss)	earnings	equity	shares	interests	equity
December 31, 2014	\$ 1,327	\$ 2,336,511	\$(748,199)		\$ 6,452	\$ 2,330,187	\$ 3,926,278	\$ 824	\$ 527,909	\$ 4,455,011
Add (Deduct)										
Net income attributable to	—	—	—	—	—	219,869	219,869	—	—	219,869
TDS shareholders Net income attributable										
to										
noncontrolling interests	—	—	—	—	—	—	—	—	39,407	39,407
classified as										
equity										
Net unrealized										
loss	—	—	—	—	(353)	—	(353)	—	—	(353)
on equity										
investments										
Change in	—	—	—	—	20	—	20	—	—	20
foreign										
currency										

translation adjustment Change related to retirement	—	—	—	(6,803)	—	(6,803)	—	—	(6,803)
plan TDS Common and Series A	—	—	—	—	(45,822)	(45,822)	—	—	(45,822)
Common share dividends TDS Preferred dividend	—	—	—	—	(37)	(37)	—	—	(37)
requirement Dividend reinvestment	—	2,321	6,315	—	—	8,636	—	—	8,636
plan Incentive and compensation	—	1,361	10,660	—	(372)	11,649	—	—	11,649
plans Adjust investment in	—	1,889	—	—	—	1,889	—	8,825	10,714
subsidiaries for repurchases,	—	1,889	—	—	—	1,889	—	8,825	10,714
issuances and other compensation	—	11,122	—	—	—	11,122	—	—	11,122
plans Stock-based compensation	—	11,122	—	—	—	11,122	—	—	11,122
awards Tax windfall (shortfall) from	—	(150)	—	—	—	(150)	—	—	(150)
stock awards Distributions to	—	—	—	—	—	—	—	(437)	(437)
noncontrolling interests September 30, 2015	\$ 1,327	\$ 2,353,054	\$ (731,224)	\$ (684)	\$ 2,503,825	\$ 4,126,298	\$ 824	\$ 575,704	\$ 4,702,826

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

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Telephone and Data Systems, Inc.

Consolidated Statement of Changes in Equity

(Unaudited)

	TDS Shareholders Series A Common and Preferred		Capital in excess of par value	Treasury shares	Accumulated other comprehensive income (loss)	Retained earnings	Total TDS shareholders' equity	Preferred shares	Noncontrolling interests	Total equity
(Dollars in thousands)	shares	par value		shares						
December 31, 2013	\$ 1,327	\$ 2,308,807		\$(721,354)	\$(569)	\$ 2,529,626	\$ 4,117,837	\$ 824	\$ 551,436	\$ 4,670,097
Add (Deduct)										
Net loss attributable to	—	—	—	—	—	(119,814)	(119,814)	—	—	(119,814)
TDS shareholders										
Net loss attributable										
to noncontrolling interests	—	—	—	—	—	—	—	—	(7,209)	(7,209)
classified as equity										
Net unrealized gain	—	—	—	—	341	—	341	—	—	341
on equity investments										
Change in foreign currency	—	—	—	—	17	—	17	—	—	17
translation adjustment										
Change related to retirement plan	—	—	—	—	(1,096)	—	(1,096)	—	—	(1,096)

TDS Common
and Series A

Common share dividends	—	—	—	—	(43,538)	(43,538)	—	—	(43,538)
TDS Preferred dividend	—	—	—	—	(37)	(37)	—	—	(37)
requirement									
Repurchase of Common shares	—	—	(31,794)	—	—	(31,794)	—	—	(31,794)
Dividend reinvestment plan	—	2,119	5,268	—	—	7,387	—	—	7,387
Incentive and compensation	—	(303)	1,220	—	—	917	—	—	917
plans									
Adjust investment in									
subsidiaries for repurchases,	—	9,831	—	—	—	9,831	—	(9,004)	827
issuances and other compensation									
plans									
Stock-based compensation	—	9,821	—	—	—	9,821	—	—	9,821
awards									
Tax windfall (shortfall) from	—	(601)	—	—	—	(601)	—	—	(601)
stock awards									
Distributions to	—	—	—	—	—	—	—	(517)	(517)
noncontrolling interests									
September 30, 2014	\$ 1,327	\$ 2,329,674	\$ (746,660)	\$ (1,307)	\$ 2,366,237	\$ 3,949,271	\$ 824	\$ 534,706	\$ 4,484,801

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

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Telephone and Data Systems, Inc.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The accounting policies of Telephone and Data Systems, Inc. (“TDS”) conform to accounting principles generally accepted in the United States of America (“GAAP”) as set forth in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). The consolidated financial statements include the accounts of TDS and subsidiaries in which it has a controlling financial interest, including TDS’ 84%-owned wireless telephone subsidiary, United States Cellular Corporation (“U.S. Cellular”) and TDS’ wholly-owned subsidiary, TDS Telecommunications Corporation (“TDS Telecom”). In addition, the consolidated financial statements include certain entities in which TDS has a variable interest that require consolidation under GAAP. All material intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the 2015 presentation.

The unaudited consolidated financial statements included herein have been prepared by TDS pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, TDS believes that the disclosures included herein are adequate to make the information presented not misleading. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in TDS’ Annual Report on Form 10-K (“Form 10-K”) for the year ended December 31, 2014.

TDS’ business segments reflected in this Quarterly Report on Form 10-Q for the period ended September 30, 2015 are U.S. Cellular, TDS Telecom’s Wireline, Cable, and Hosted and Managed Services (“HMS”) operations. TDS’ non-reportable other business activities are presented as “Corporate, Eliminations and Other”, which includes the operations of TDS’ wholly-owned subsidiaries Suttle-Straus, Inc. (“Suttle-Straus”) and Airadigm Communications, Inc. (“Airadigm”). Suttle-Straus and Airadigm’s financial results were not significant to TDS’ operations. All of TDS’ segments operate only in the United States, except for HMS, which includes an insignificant foreign operation. See Note 13 — Business Segment Information for summary financial information on each business segment.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring items, unless otherwise disclosed) necessary for a fair statement of the financial position as of September 30, 2015 and December 31, 2014, and the results of operations and changes in comprehensive income for the three and nine months ended September 30, 2015 and 2014 and cash flows and changes in equity for the nine months ended September 30, 2015 and 2014. These results are not necessarily indicative of the results to be expected for the full year.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). ASU 2014-09 outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers. In August 2015, the FASB issued Accounting Standards Update 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, requiring the adoption of ASU 2014-09 on January 1, 2018. Early adoption as of January 1, 2017 is permitted; however, TDS does not intend to adopt early. TDS is evaluating the effects that adoption of ASU 2014-09 will have on its financial position, results of operations, and disclosures.

In August 2014, the FASB issued Accounting Standards Update 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). ASU 2014-15 requires TDS to assess its ability to continue as a going concern each interim and annual reporting period and provide certain disclosures if there is substantial doubt about the entity’s ability to continue as a going concern, including management’s plan to alleviate the substantial doubt. TDS is required to adopt the provisions of ASU 2014-15 for the annual period ending December 31, 2016, but early adoption is permitted. The adoption of ASU 2014-15 will not impact TDS’ financial position or results of operations but may impact future disclosures.

In February 2015, the FASB issued Accounting Standards Update 2015-02, Consolidation: Amendments to the Consolidation Analysis (“ASU 2015-02”). ASU 2015-02 simplifies consolidation accounting by reducing the number of consolidation models. Additionally, ASU 2015-02 changes certain criteria for identifying variable interest entities. TDS is required to adopt the provisions of ASU 2015-02 effective January 1, 2016. Early adoption is permitted. TDS expects that certain consolidated subsidiaries that are not defined as variable interest entities under current accounting guidance will be defined as variable interest entities under the provisions of ASU 2015-02. However, TDS does not expect the adoption of ASU 2015-02 to change the group of entities which TDS is required to consolidate in its financial statements. Accordingly, TDS does not expect the adoption of ASU 2015-02 to impact its financial position or results of operations. However, additional disclosures are expected.

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In April 2015, the FASB issued Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”), which requires certain debt issuance costs to be presented in the balance sheet as an offset to the related debt obligation. TDS is required to apply the provisions of this update effective January 1, 2016 on a retrospective basis. Early adoption is permitted. In August 2015, the FASB issued Accounting Standards Update 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, excluding debt issuance costs related to line-of-credit arrangements from the scope of ASU 2015-03. As of September 30, 2015, TDS had \$54.7 million in debt issuance costs classified as Other assets and deferred charges that, upon adoption of ASU 2015-03, would be reclassified as an offset to Long-term debt.

In July 2015, the FASB issued Accounting Standards Update 2015-11, Inventory: Simplifying the Measurement of Inventory (“ASU 2015-11”), which requires inventory to be measured at the lower of cost or net realizable value. TDS is required to adopt ASU 2015-11 on January 1, 2017. Early adoption is permitted. TDS is evaluating the effects that adoption of ASU 2015-11 will have on its financial position and results of operations.

In September 2015, the FASB issued Accounting Standards Update 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”). ASU 2015-16 simplifies how adjustments are made to provisional amounts recognized in a business combination during the measurement period. TDS is required to adopt ASU 2015-16 on January 1, 2016. TDS is evaluating the effects that adoption of ASU 2015-16 will have on its financial position, results of operations, and disclosures.

Amounts Collected from Customers and Remitted to Governmental Authorities

TDS records amounts collected from customers and remitted to governmental authorities net within a tax liability account if the tax is assessed upon the customer and TDS merely acts as an agent in collecting the tax on behalf of the imposing governmental authority. If the tax is assessed upon TDS, then amounts collected from customers as recovery of the tax are recorded in Service revenues and amounts remitted to governmental authorities are recorded in Selling, general and administrative expenses in the Consolidated Statement of Operations. The amounts recorded gross in revenues that are billed to customers and remitted to governmental authorities totaled \$23.8 million and \$75.4 million for the three and nine months ended September 30, 2015, respectively, and \$26.4 million and \$86.5 million for the three and nine months ended September 30, 2014, respectively.

2. Fair Value Measurements

As of September 30, 2015 and December 31, 2014, TDS did not have any financial or nonfinancial assets or liabilities that were required to be recorded at fair value in its Consolidated Balance Sheet in accordance with GAAP.

The provisions of GAAP establish a fair value hierarchy that contains three levels for inputs used in fair value measurements. Level 1 inputs include quoted market prices for identical assets or liabilities in active markets. Level 2 inputs include quoted market prices for similar assets and liabilities in active markets or quoted market prices for identical assets and liabilities in inactive markets. Level 3 inputs are unobservable. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. A financial instrument’s level within the fair value hierarchy is not representative of its expected performance or its overall risk profile and, therefore, Level 3 assets are not necessarily higher risk than Level 2 or Level 1 assets.

TDS has applied the provisions of fair value accounting for purposes of computing the fair value of financial instruments for disclosure purposes as displayed below.

Level within the Fair Value Hierarchy		September 30, 2015		December 31, 2014	
		Book Value	Fair Value	Book Value	Fair Value
(Dollars in thousands)					
Cash and cash equivalents	1	\$865,425	\$865,425	\$471,901	\$471,901
Long-term debt					
Retail	2	1,453,250	1,460,294	1,453,250	1,414,105
Institutional	2	532,940	489,373	532,722	513,647
Other	2	220,922	221,538	4,749	4,675

The fair value of Cash and cash equivalents approximates the book value due to the short-term nature of these financial instruments. Long-term debt excludes capital lease obligations and the current portion of Long-term debt. The fair value of "Retail" Long-term debt was estimated using market prices for TDS' 7.0% Senior Notes, 6.875% Senior Notes, 6.625% Senior Notes and 5.875% Senior Notes, and U.S. Cellular's 6.95% Senior Notes and 7.25% Senior Notes. TDS' "Institutional" debt

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consists of U.S. Cellular's 6.7% Senior Notes which are traded over the counter. TDS' "Other" debt consists of a senior term loan credit facility and other borrowings with financial institutions. TDS estimated the fair value of its Institutional and Other debt through a discounted cash flow analysis using the interest rates or estimated yield to maturity for each borrowing, which ranged from 0.00% to 7.73% and 0.00% to 7.25% at September 30, 2015 and December 31, 2014, respectively.

3. Equipment Installment Plans

TDS offers customers the option to purchase certain devices under an equipment installment contract over a period of up to 24 months. Under certain equipment installment plans, the customer has the right to upgrade to a new device after a specified period of time and have the remaining unpaid equipment installment contract balance waived, subject to certain conditions, including trading in the original device in good working condition and signing a new equipment installment contract. TDS values this trade-in right as a guarantee liability. The guarantee liability is initially measured at fair value and is determined based on assumptions including the probability and timing of the customer upgrading to a new device and the fair value of the device being traded-in at the time of trade-in. As of September 30, 2015 and December 31, 2014, the guarantee liability related to these plans was \$91.3 million and \$57.5 million, respectively, and is reflected in Customer deposits and deferred revenues in the Consolidated Balance Sheet.

TDS equipment installment plans do not provide for explicit interest charges. For equipment installment plans with a duration of greater than twelve months, TDS imputes interest.

The following table summarizes unbilled equipment installment plan receivables as of September 30, 2015 and December 31, 2014. Such amounts are included in the Consolidated Balance Sheet as Accounts receivable – customers and agents (short-term portion) and Other assets and deferred charges (long-term portion).

(Dollars in thousands)	September 30, 2015	December 31, 2014
Short-term portion of unbilled equipment installment plan receivables, gross		
Short-term portion of unbilled deferred interest		
Short-term portion of unbilled allowance for credit losses		
	\$217,388	\$107,349
Short-term		

\$245,218 \$127,400

(18,504) (16,365)

(9,326) (3,686)

portion of
unbilled
equipment
installment
plan
receivables,
net

Long-term portion of unbilled equipment installment plan receivables, gross	\$66,512	\$89,435
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Long-term portion of unbilled deferred interest	(819)	(2,791)
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Long-term portion of unbilled allowance for credit losses	(4,740)	(6,065)
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Long-term portion of unbilled equipment installment plan receivables, net	\$60,953	\$80,579
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TDS assesses the collectability of equipment installment plan receivables based on historical payment experience, account aging and other qualitative factors. To mitigate credit risk, TDS requires certain customers who desire to purchase equipment under an installment plan to make a down payment.

TDS recorded out-of-period adjustments during the nine months ended September 30, 2015 due to errors related to equipment installment plan transactions that were attributable to 2014. TDS has determined that these adjustments were not material to the prior quarterly or annual periods, and also were not material to the current period or anticipated full year 2015 results. These equipment installment plan adjustments had the impact of reducing Equipment and product sales revenues by \$6.2 million and Income before income taxes by \$5.8 million for the nine months ended September 30, 2015. These adjustments were made in the first six months of 2015.

4. Income Taxes

TDS' overall effective tax rate on Income (loss) before income taxes for the three and nine months ended September 30, 2015 were 42.1% and 40.3%, respectively.

The effective tax rates for the three and nine months ended September 30, 2014 were negative and not meaningful due to the impact of several items on tax expense, including:

- A \$40.8 million tax expense related to a valuation allowance recorded against certain state deferred tax assets that TDS determined were not realizable, on a more likely than not basis.

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- A \$10.8 million tax benefit due to a valuation allowance reduction for federal net operating losses previously limited under loss utilization rules. Due to the shutdown of Airadigm's consumer wireless business and resulting intercompany sale of certain assets by Airadigm to U.S. Cellular during the period, Airadigm is expected to recognize sufficient taxable income for TDS to utilize the previously limited net operating losses.
- A \$19.9 million expense related to a portion of the goodwill impairment of the HMS reporting unit recorded in the third quarter of 2014, which is nondeductible for income tax purposes.

5. Earnings Per Share

Basic earnings (loss) per share attributable to TDS shareholders is computed by dividing Net income (loss) available to common shareholders of TDS by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share attributable to TDS shareholders is computed by dividing Net income (loss) available to common shareholders of TDS by the weighted average number of common shares outstanding during the period adjusted to include the effects of potentially dilutive securities. Potentially dilutive securities primarily include incremental shares issuable upon exercise of outstanding stock options and the vesting of restricted stock units.

The amounts used in computing earnings (loss) per common share and the effects of potentially dilutive securities on the weighted average number of common shares were as follows:

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
(Dollars and shares in thousands, except per share amounts)				
Basic earnings (loss) per share attributable to TDS shareholders:				
Net income (loss) available to common shareholders of	\$51,071	\$(116,042)	\$219,832	\$(119,851)
TDS used in basic earnings (loss) per share				
Adjustments to compute diluted				

earnings (loss):

Noncontrolling interest adjustment	(384)	—	(1,540)	—
Preferred dividend adjustment	12	—	37	—
Net income (loss) attributable to common shareholders of				
TDS used in diluted earnings (loss) per share	\$50,699	\$(116,042)	\$218,329	\$(119,851)

Weighted average number of shares used in basic

earnings (loss)

per share:

Common Shares Series A	101,652	101,067	101,315	101,474
Common Shares	7,196	7,185	7,188	7,176
Total	108,848	108,252	108,503	108,650

Effects of dilutive securities:

Stock options	818	—	778	—
Restricted stock units	498	—	406	—
Preferred shares	50	—	50	—

Weighted average number of shares used in diluted

earnings (loss) per share	110,214	108,252	109,737	108,650
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Basic earnings (loss) per share attributable to TDS

shareholders	\$0.47	\$(1.07)	\$2.03	\$(1.10)
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Diluted earnings (loss) per share attributable to TDS				
shareholders	\$0.46	\$(1.07)	\$1.99	\$(1.10)

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Certain Common Shares issuable upon the exercise of stock options, vesting of restricted stock units or conversion of preferred shares were not included in average diluted shares outstanding for the calculation of Diluted earnings (loss) per share attributable to TDS shareholders because their effects were antidilutive. The number of such Common Shares excluded, if any, is shown in the table below.

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
(Shares in thousands)				
Stock options	4,687	9,207	4,438	8,922
Restricted stock units	–	992	191	823
Preferred shares	–	52	–	52

6. Acquisitions, Divestitures and Exchanges

Divestiture Transaction

On May 16, 2013, pursuant to a Purchase and Sale Agreement, U.S. Cellular sold customers and certain PCS spectrum licenses to subsidiaries of Sprint Corp. fka Sprint Nextel Corporation (“Sprint”) in U.S. Cellular’s Chicago, central Illinois, St. Louis and certain Indiana/Michigan/Ohio markets (“Divestiture Markets”) in consideration for \$480 million in cash. The Purchase and Sale Agreement also contemplated certain other agreements, together with the Purchase and Sale Agreement collectively referred to as the “Divestiture Transaction.”

These agreements require Sprint to reimburse U.S. Cellular up to \$200 million (the “Sprint Cost Reimbursement”) for certain network decommissioning costs, network site lease rent and termination costs, network access termination costs, and employee termination benefits for specified engineering employees. As of September 30, 2015, U.S. Cellular had received a cumulative total of \$109.3 million pursuant to the Sprint Cost Reimbursement. For the nine months ended September 30, 2015 and 2014, \$27.6 million and \$52.0 million, respectively, of the Sprint Cost Reimbursement had been received and recorded in Cash received from divestitures and exchanges in the Consolidated Statement of Cash Flows.

For the nine months ended September 30, 2015 and 2014, as a result of the Divestiture Transaction, U.S. Cellular recognized gains of \$6.2 million and \$28.1 million, respectively, in (Gain) loss on sale of business and other exit costs, net. For the three months ended September 30, 2015 and 2014, U.S. Cellular recognized gains of \$0.3 million and \$10.4 million, respectively.

Other Acquisitions, Divestitures and Exchanges

- At September 30, 2015, TDS' assets and liabilities classified in the Consolidated Balance Sheet as held for sale were related to agreements to sell certain Wireline markets and Airadigm operations.
- In March 2015, U.S. Cellular exchanged certain of its unbuilt PCS licenses for certain other PCS licenses located in U.S. Cellular's existing operating markets and \$117.0 million of cash. As of the transaction date, the licenses received in the transaction had an estimated fair value, per a market approach, of \$43.5 million. A gain of \$125.2 million was recorded in (Gain) loss on license sales and exchanges, net in the Consolidated Statement of Operations in the first quarter of 2015.
- An FCC auction of AWS-3 spectrum licenses ("Auction 97") ended in January 2015. U.S. Cellular participated in Auction 97 indirectly through its limited partnership interest in Advantage Spectrum L.P. ("Advantage Spectrum"). Advantage Spectrum was the provisional winning bidder for 124 licenses for an aggregate winning bid of \$338.3 million, after its designated entity discount of 25%. Advantage Spectrum's bid amount, less the initial deposit amount of \$60.0 million paid in 2014, was paid to the FCC in March 2015. These licenses have not yet been granted by the FCC. See Note 10 — Variable Interest Entities for additional information.
- In December 2014, U.S. Cellular entered into an agreement with a third party to sell 595 towers and certain related contracts, assets, and liabilities for \$159.0 million. This agreement and related transactions are referred to as the "Tower Sale" and were accomplished in two closings. The first closing occurred in December 2014 and included the sale of 236 towers, without tenants, for \$10.0 million. On this same date, U.S. Cellular received \$7.5 million in earnest money. At the time of the first closing, a \$4.7 million gain was recorded. The second closing for the remaining 359 towers, primarily with tenants, took place in January 2015, at which time U.S. Cellular received \$141.5 million in additional cash proceeds and recorded a gain of \$119.6 million in (Gain) loss on sale of business and other exit costs, net.

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- In September 2014, U.S. Cellular entered into an agreement with a third party to exchange certain PCS and AWS licenses for certain other PCS and AWS licenses and \$28.0 million of cash. This license exchange was accomplished in two closings. The first closing occurred in December 2014 at which time U.S. Cellular received licenses with an estimated fair value, per a market approach, of \$51.5 million, recorded a \$21.7 million gain and recorded an \$18.3 million deferred credit in Other current liabilities. The license that was transferred to the counterparty in the second closing had a net book value of \$22.2 million. The second closing occurred in July 2015. At the time of the second closing, U.S. Cellular received \$28.0 million in cash and recognized the deferred credit from the first closing, resulting in a total gain of \$24.1 million recorded on this part of the license exchange.

7. Intangible Assets

Changes in Licenses at TDS for the nine months ended September 30, 2015 are presented below. There were no significant changes to Franchise rights, Goodwill or Other intangible assets during the nine months ended September 30, 2015.

Licenses

(Dollars in
thousands)

Balance

December \$1,453,574
31, 2014

Acquisitions 345,656
(1)

Exchanges 43,485
(2)

Other 1,482

Balance

September \$1,844,197
30, 2015

- (1) Amount includes payments totaling \$338.3 million made by Advantage Spectrum to the FCC for licenses in which it was the provisional winning bidder in Auction 97. See Note 6 — Acquisitions,

Divestitures and
Exchanges, and
Note 10 — Variable
Interest Entities
for further
information.
Amount
represents licenses
received in the
March 2015 PCS
license exchange.
See Note 6 —
Acquisitions,
Divestitures and
Exchanges for
further
information.
Licenses disposed
of in this
(2) exchange and the
exchange that
closed in July
2015 were
previously
removed from the
Licenses balance
and reflected in
Assets held for
sale in the
Consolidated
Balance Sheet as
of December 31,
2014.

8. Investments in Unconsolidated Entities

Investments in unconsolidated entities consist of amounts invested in wireless and wireline entities in which TDS holds a noncontrolling interest. These investments are accounted for using either the equity or cost method.

The following table, which is based on information provided in part by third parties, summarizes the combined results of operations of TDS' equity method investments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(Dollars in thousands)				
Revenues	\$ 1,738,488	\$ 1,649,160	\$ 5,199,305	\$ 4,876,269
Operating expenses	1,267,820	1,230,366	3,840,462	3,554,598
Operating income	470,668	418,794	1,358,843	1,321,671
Other income (loss), net	(10,236)	4,752	(16,744)	7,178

Net income	\$ 460,432	\$ 423,546	\$ 1,342,099	\$ 1,328,849
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9. Debt

In January 2015, U.S. Cellular entered into a senior term loan credit facility. In July 2015, U.S. Cellular borrowed the full amount of \$225 million available under this facility in two separate draws at an overall interest rate of 2.88%. The interest rate on outstanding borrowings will be reset at three and six month intervals at a rate of LIBOR plus 250 basis points. This credit facility provides for the draws to be continued on a long-term basis under terms that are readily determinable. U.S. Cellular has the ability and intent to carry the debt for the duration of the agreement. Principal reductions will be due and payable in quarterly installments of \$2.8 million beginning in March 2016 through December 2021, and the remaining unpaid balance will be due and payable in January 2022. These funds will be used for general corporate purposes, including working capital, spectrum purchases and capital expenditures.

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10. Variable Interest Entities

TDS consolidates variable interest entities (“VIEs”) in which it has a controlling financial interest and is the primary beneficiary. A controlling financial interest will have both of the following characteristics: (a) the power to direct the VIE activities that most significantly impact economic performance and (b) the obligation to absorb VIE losses and the right to receive benefits that are significant to the VIE. TDS reviews these criteria initially at the time it enters into agreements and subsequently when reconsideration events occur.

Consolidated VIEs

As of September 30, 2015, TDS holds a variable interest in and consolidates the following VIEs:

- Advantage Spectrum and Frequency Advantage L.P., the general partner of Advantage Spectrum;
- Aquinas Wireless L.P. (“Aquinas Wireless”); and
- King Street Wireless L.P. (“King Street Wireless”) and King Street Wireless, Inc., the general partner of King Street Wireless.

The power to direct the activities that most significantly impact the economic performance of Advantage Spectrum, Aquinas Wireless and King Street Wireless (collectively, the “limited partnerships”) is shared. Specifically, the general partner of these VIEs has the exclusive right to manage, operate and control the limited partnerships and make all decisions to carry on the business of the partnerships; however, the general partner of each partnership needs the consent of the limited partner, a TDS subsidiary, to sell or lease certain licenses, to make certain large expenditures, admit other partners or liquidate the limited partnerships. Although the power to direct the activities of the VIEs is shared, TDS has a disproportionate level of exposure to the variability associated with the economic performance of the VIEs, indicating that TDS is the primary beneficiary of the VIEs. Accordingly, these VIEs are consolidated.

The following table presents the classification of the consolidated VIEs’ assets and liabilities in TDS’ Consolidated Balance Sheet.

	September 30, 2015	December 31, 2014
(Dollars in thousands)		
Assets		
Cash and cash equivalents	\$ 1,681	\$ 2,588
Other current assets	175	278
Licenses (1)	648,661	312,977
Property, plant and equipment, net	8,635	10,671
Other assets and deferred charges	324	60,059
Total assets	\$ 659,476	\$ 386,573

Liabilities

Current liabilities	\$1	\$110
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Deferred liabilities and credits	494	622
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Total liabilities	\$495	\$732
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At September 30, 2015, includes payments totaling \$338.3 million made by Advantage Spectrum to the FCC as described below.

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Other Related Matters

In March 2015, King Street Wireless made a \$60.0 million distribution to its investors. Of this distribution, \$6.0 million was provided to King Street Wireless, Inc. and \$54.0 million was provided to U.S. Cellular.

FCC Auction 97 ended in January 2015. TDS participated in Auction 97 indirectly through its interest in Advantage Spectrum. A subsidiary of U.S. Cellular is a limited partner in Advantage Spectrum. Advantage Spectrum qualified as a “designated entity,” and thereby was eligible for bid credits with respect to spectrum purchased in Auction 97. Advantage Spectrum was the winning bidder for 124 licenses for an aggregate bid of \$338.3 million, after its designated entity discount of 25%. This amount is classified as Licenses in TDS’ Consolidated Balance Sheet. Advantage Spectrum’s bid amount, less the initial deposit of \$60.0 million paid in 2014, plus certain other charges totaling \$2.3 million, were paid to the FCC in March 2015. To help fund this payment, U.S. Cellular made loans and capital contributions to Advantage Spectrum and Frequency Advantage totaling \$280.6 million during the nine months ended September 30, 2015. There were no capital contributions, loans or advances made to TDS’ VIEs during the nine months ended September 30, 2014.

Advantage Spectrum, Aquinas Wireless and King Street Wireless were formed to participate in FCC auctions of wireless spectrum and to fund, establish, and provide wireless service with respect to any FCC licenses won in the auctions. As such, these entities have risks similar to those described in the “Risk Factors” in TDS’ Form 10-K for the year ended December 31, 2014.

TDS may agree to make additional capital contributions and/or advances to Advantage Spectrum, Aquinas Wireless or King Street Wireless and/or to their general partners to provide additional funding for the development of licenses granted in various auctions. TDS may finance such amounts with a combination of cash on hand, borrowings under its revolving credit agreement and/or other long-term debt. There is no assurance that TDS will be able to obtain additional financing on commercially reasonable terms or at all to provide such financial support.

During the three and nine-months ended September 30, 2015, TDS recorded out-of-period adjustments attributable to the third quarter of 2013 through the second quarter of 2015 related to an agreement with King Street Wireless. TDS has determined that these adjustments were not material to the prior quarterly or annual periods, and also were not material to the current period or anticipated full year 2015 results. As a result of these out-of-period adjustments, for the three and nine months ended September 30, 2015, Net income decreased by \$3.2 million and \$2.8 million, and Net income attributable to TDS shareholders decreased by \$3.8 million and \$3.3 million, respectively.

11. Noncontrolling Interests

The following schedule discloses the effects of Net income (loss) attributable to TDS shareholders and changes in TDS’ ownership interest in U.S. Cellular on TDS’ equity:

	Nine Months Ended	
	September 30,	
	2015	2014
(Dollars in thousands)		
Net income (loss)		
attributable to TDS shareholders	\$219,869	\$(119,814)

Transfer (to) from
the noncontrolling
interests

Change in
TDS' Capital
in excess of
par value from

U.S.	(13,768)	(11,042)
Cellular's issuance of U.S. Cellular shares		

Change in
TDS' Capital
in excess of
par value from

U.S.	951	858
Cellular's repurchases of U.S. Cellular shares		

Purchase of
ownership in
subsidiaries
from
noncontrolling
interests

240	7,484
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Net transfers
(to) from
noncontrolling
interests

(12,577)	(2,700)
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Change from net
income (loss)
attributable to TDS
and

\$207,292	\$(122,514)
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transfers (to)
from
noncontrolling
interests

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12. Common Share Repurchases

On August 2, 2013, the Board of Directors of TDS authorized a \$250 million stock repurchase program for the purchase of TDS Common Shares from time to time pursuant to open market purchases, block transactions, private purchases or otherwise, depending on market conditions. This authorization does not have an expiration date.

On November 17, 2009, the Board of Directors of U.S. Cellular authorized the repurchase of up to 1,300,000 Common Shares on an annual basis beginning in 2009 and continuing each year thereafter, on a cumulative basis. These purchases will be made pursuant to open market purchases, block purchases, private purchases or otherwise, depending on market conditions. This authorization does not have an expiration date.

Share repurchases made under these authorizations were as follows:

Nine Months Ended September 30, (Dollar amounts and shares in thousands, except per share data)	Number of Shares	Average Cost	
		Per Share	Amount
2015			
TDS Common Shares	—	\$—	\$—
U.S. Cellular Common Shares	154	\$ 34.85	\$ 5,362
2014			
TDS Common Shares	1,230	\$ 25.85	\$ 31,794
U.S. Cellular Common Shares	384	\$ 39.37	\$ 15,124

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13. Business Segment Information

U.S. Cellular and TDS Telecom are billed for all services they receive from TDS, consisting primarily of information processing, accounting and finance, and general management services. Such billings are based on expenses specifically identified to U.S. Cellular and TDS Telecom and on allocations of common expenses. Management believes the method used to allocate common expenses is reasonable and that all expenses and costs applicable to U.S. Cellular and TDS Telecom are reflected in the accompanying business segment information on a basis that is representative of what they would have been if U.S. Cellular and TDS Telecom operated on a stand-alone basis.

Financial data for TDS' reportable segments for the three and nine month periods ended, or as of September 30, 2015 and 2014, is as follows. See Note 1 — Basis of Presentation for additional information.

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Three Months Ended or as of September 30, 2015 (Dollars in thousands) Operating revenues	TDS Telecom					TDS Telecom Eliminations	TDS Telecom Total	Corporate, Eliminations and Other	Total
	U.S. Cellular	Wireline	Cable	HMS					
Services	\$895,960	\$174,579	\$43,741	\$30,428	\$ (1,184)	\$247,564	\$ (5,757)	\$1,137,767	
Equipment and product sales	172,946	477	119	51,214	—	51,810	11,275	236,031	
Total operating revenues	1,068,906	175,056	43,860	81,642	(1,184)	299,374	5,518	1,373,798	
Cost of services (excluding Depreciation, amortization and accretion expense reported below)	198,982	63,696	19,545	21,163	(1,125)	103,279	830	303,091	
Cost of equipment and products	287,256	515	25	43,081	—	43,621	6,174	337,051	
Selling, general and administrative	374,585	50,062	14,346	12,446	(59)	76,795	(2,296)	449,084	
Depreciation, amortization and accretion	152,369	41,228	8,530	6,790	—	56,548	1,847	210,764	
(Gain) loss on asset disposals, net	2,618	1,845	425	22	—	2,292	9	4,919	
(Gain) loss on sale of business and other exit costs, net	(643)	(105)	—	—	—	(105)	189	(559)	
(Gain) loss on license sales and exchanges, net	(23,986)	—	—	—	—	—	—	(23,986)	
Operating income (loss)	77,725	17,815	989	(1,860)	—	16,944	(1,235)	93,434	
Equity in earnings of unconsolidated entities	39,674	2	—	—	—	2	94	39,770	

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Interest and dividend income	9,299	624	10	6	—	640	(322)	9,617
Interest expense	(21,121)	193	109	(565)	—	(263)	(13,659)	(35,043)
Other, net	78	(48)	—	(79)	—	(127)	(7)	(56)
Income (loss) before income taxes	105,655	18,586	1,108	(2,498)	—	17,196	(15,129)	107,722
Income tax expense (benefit) (1)	40,634					8,278	(3,585)	45,327
Net income (loss)	65,021					8,918	(11,544)	62,395
Add back:								
Depreciation, amortization and accretion	152,369	41,228	8,530	6,790	—	56,548	1,847	210,764
(Gain) loss on asset disposals, net	2,618	1,845	425	22	—	2,292	9	4,919
(Gain) loss on sale of business and other exit costs, net	(643)	(105)	—	—	—	(105)	189	(559)
(Gain) loss on license sales and exchanges, net	(23,986)	—	—	—	—	—	—	(23,986)
Interest expense	21,121	(193)	(109)	565	—	263	13,659	35,043
Income tax expense (benefit) (1)	40,634					8,278	(3,585)	45,327
Adjusted EBITDA (2)	\$257,134	\$61,361	\$9,954	\$4,879	\$—	\$76,194	\$575	\$333,903
Investments in unconsolidated entities	\$347,709	\$3,806	\$—	\$—	\$—	\$3,806	\$34,638	\$386,153
Total assets	\$6,938,384	\$1,322,359	\$571,836	\$299,101	\$—	\$2,193,296	\$185,678	\$9,317,358
Capital expenditures	\$134,816	\$38,354	\$13,023	\$5,090	\$—	\$56,467	\$2,425	\$193,708

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Three Months Ended or as of September 30, 2014 (Dollars in thousands)	TDS Telecom							Corporate, Eliminations Total and Other
	U.S. Cellular	Wireline	Cable	HMS	TDS Telecom Elimination	TDS Telecom Total		
Operating revenues								
Services	\$851,063	\$177,650	\$28,519	\$27,806	\$ (980)	\$232,995	\$ (2,586)	\$1,081,472
Equipment and product sales	149,356	425	—	39,737	—	40,162	9,033	198,551
Total operating revenues	1,000,419	178,075	28,519	67,543	(980)	273,157	6,447	1,280,023
Cost of services (excluding Depreciation, amortization and accretion expense reported below)	199,750	64,072	12,651	19,442	(926)	95,239	2,194	297,183
Cost of equipment and products	307,862	829	—	33,819	—	34,648	6,699	349,209
Selling, general and administrative	397,545	46,627	9,948	12,724	(54)	69,245	(1,776)	465,014
Depreciation, amortization and accretion	148,952	41,358	6,171	6,726	—	54,255	2,322	205,529
Loss on impairment of assets	—	—	—	84,000	—	84,000	—	84,000
(Gain) loss on asset disposals, net	7,947	743	626	(2)	—	1,367	(21)	9,293
(Gain) loss on sale of business and other exit costs, net	(10,283)	(2,201)	—	—	—	(2,201)	7,694	(4,790)
Operating income (loss)	(51,354)	26,647	(877)	(89,166)	—	(63,396)	(10,665)	(125,415)
Equity in earnings of unconsolidated entities	35,971	2	—	—	—	2	108	36,081

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Interest and dividend income	3,572	569	(1)	(23)	–	545	409	4,526
Interest expense	(13,514)	598	32	(343)	–	287	(13,943)	(27,170)
Other, net	95	71	–	(86)	–	(15)	(11)	69
Income (loss) before income taxes	(25,230)	27,887	(846)	(89,618)	–	(62,577)	(24,102)	(111,909)
Income tax expense (benefit) (1)	(1,459)					(2,937)	13,686	9,290
Net income (loss)	(23,771)					(59,640)	(37,788)	(121,199)
Add back:								
Depreciation, amortization and accretion	148,952	41,358	6,171	6,726	–	54,255	2,322	205,529
Loss on impairment of assets	–	–	–	84,000	–	84,000	–	84,000
(Gain) loss on asset disposals, net	7,947	743	626	(2)	–	1,367	(21)	9,293
(Gain) loss on sale of business and other exit costs, net	(10,283)	(2,201)	–	–	–	(2,201)	7,694	(4,790)
Interest expense	13,514	(598)	(32)	343	–	(287)	13,943	27,170
Income tax expense (benefit) (1)	(1,459)	–	–	–	–	(2,937)	13,686	9,290
Adjusted EBITDA (2)	\$ 134,900	\$ 67,189	\$ 5,919	\$ 1,449	\$ –	\$ 74,557	\$ (164)	\$ 209,293
Investments in unconsolidated entities	\$ 296,900	\$ 3,804	\$ –	\$ –	\$ –	\$ 3,804	\$ 34,744	\$ 335,448
Total assets	\$ 6,257,075	\$ 1,385,524	\$ 543,731	\$ 255,519	\$ –	\$ 2,184,774	\$ 198,699	\$ 8,640,548
Capital expenditures	\$ 142,452	\$ 34,243	\$ 7,598	\$ 9,800	\$ –	\$ 51,641	\$ 1,132	\$ 195,225

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Nine Months Ended or as of September 30, 2015 (Dollars in thousands)	TDS Telecom					TDS Telecom Eliminations	TDS Telecom Total	Corporate, Eliminations and Other	Total
	U.S. Cellular	Wireline	Cable	HMS					
Operating revenues									
Services	\$2,548,544	\$525,683	\$131,767	\$88,311	\$ (3,222)		\$742,539	\$ (9,575)	\$3,281,508
Equipment and product sales	461,274	1,478	277	129,878	—		131,633	27,371	620,278
Total operating revenues	3,009,818	527,161	132,044	218,189	(3,222)		874,172	17,796	3,901,786
Cost of services (excluding Depreciation, amortization and accretion expense reported below)	585,935	188,727	59,342	63,145	(3,011)		308,203	2,752	896,890
Cost of equipment and products	779,228	1,675	100	108,777	—		110,552	17,702	907,482
Selling, general and administrative	1,106,524	144,931	40,735	36,105	(211)		221,560	(5,530)	1,322,554
Depreciation, amortization and accretion	450,035	124,440	26,109	19,798	—		170,347	8,061	628,443
(Gain) loss on asset disposals, net	12,268	3,373	(561)	(21)	—		2,791	(11)	15,048
(Gain) loss on sale of business and other exit costs, net	(113,825)	(3,159)	—	—	—		(3,159)	(12,947)	(129,931)
(Gain) loss on license sales and exchanges, net	(146,884)	—	—	—	—		—	—	(146,884)
Operating income (loss)	336,537	67,174	6,319	(9,615)	—		63,878	7,769	408,184
Equity in earnings of	109,729	15	—	—	—		15	79	109,823

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unconsolidated entities								
Interest and dividend income	25,834	1,726	23	29	—	1,778	507	28,119
Interest expense	(61,239)	784	352	(1,550)	—	(414)	(41,139)	(102,792)
Other, net	274	(81)	3	(65)	—	(143)	11	142
Income (loss) before income taxes	411,135	69,618	6,697	(11,201)	—	65,114	(32,773)	443,476
Income tax expense (benefit) (1)	161,214					27,083	(9,517)	178,780
Net income (loss)	249,921					38,031	(23,256)	264,696
Add back:								
Depreciation, amortization and accretion	450,035	124,440	26,109	19,798	—	170,347	8,061	628,443
(Gain) loss on asset disposals, net	12,268	3,373	(561)	(21)	—	2,791	(11)	15,048
(Gain) loss on sale of business and other exit costs, net	(113,825)	(3,159)	—	—	—	(3,159)	(12,947)	(129,931)
(Gain) loss on license sales and exchanges, net	(146,884)	—	—	—	—	—	—	(146,884)
Interest expense	61,239	(784)	(352)	1,550	—	414	41,139	102,792
Income tax expense (benefit) (1)	161,214					27,083	(9,517)	178,780
Adjusted EBITDA (2)	\$673,968	\$193,488	\$31,893	\$10,126	\$—	\$235,507	\$3,469	\$912,944
Investments in unconsolidated entities	\$347,709	\$3,806	\$—	\$—	\$—	\$3,806	\$34,638	\$386,153
Total assets	\$6,938,384	\$1,322,359	\$571,836	\$299,101	\$—	\$2,193,296	\$185,678	\$9,317,358
Capital expenditures	\$334,942	\$90,517	\$36,575	\$19,341	\$—	\$146,433	\$5,570	\$486,945

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Nine Months Ended or as of September 30, 2014 (Dollars in thousands)	TDS Telecom							Corporate, Eliminations Total and Other
	U.S. Cellular	Wireline	Cable	HMS	TDS Telecom Eliminations	TDS Telecom Total		
Operating revenues								
Services	\$2,548,149	\$534,880	\$73,506	\$82,757	\$ (1,959)	\$689,184	\$ (3,440)	\$3,233,893
Equipment and product sales	335,854	1,409	—	115,830	—	117,239	25,391	478,484
Total operating revenues	2,884,003	536,289	73,506	198,587	(1,959)	806,423	21,951	3,712,377
Cost of services (excluding Depreciation, amortization and accretion expense reported below)	567,488	192,777	35,000	57,689	(1,820)	283,646	8,495	859,629
Cost of equipment and products	850,314	1,793	—	98,161	—	99,954	18,599	968,867
Selling, general and administrative	1,197,361	140,855	22,611	39,935	(139)	203,262	(1,038)	1,399,585
Depreciation, amortization and accretion	465,042	125,921	15,089	20,195	—	161,205	8,768	635,015
Loss on impairment of assets	—	—	—	84,000	—	84,000	—	84,000
(Gain) loss on asset disposals, net	16,774	1,502	1,116	76	—	2,694	158	19,626
(Gain) loss on sale of business and other exit costs, net	(27,694)	(2,201)	—	—	—	(2,201)	20,816	(9,079)
(Gain) loss on license sales and exchanges, net	(91,446)	—	—	—	—	—	—	(91,446)

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Operating income (loss)	(93,836)	75,642	(310)	(101,469)	–	(26,137)	(33,847)	(153,820)
Equity in earnings of unconsolidated entities	106,166	6	–	–	–	6	2,026	108,198
Interest and dividend income	6,029	1,744	1	19	–	1,764	1,970	9,763
Interest expense	(42,712)	1,939	67	(1,203)	–	803	(41,866)	(83,775)
Other, net	281	(78)	–	93	–	15	(17)	279
Income (loss) before income taxes	(24,072)	79,253	(242)	(102,560)	–	(23,549)	(71,734)	(119,355)
Income tax expense (benefit) (1)	746					12,571	(6,041)	7,276
Net income (loss)	(24,818)					(36,120)	(65,693)	(126,631)
Add back:								
Depreciation, amortization and accretion	465,042	125,921	15,089	20,195	–	161,205	8,768	635,015
Loss on impairment of assets	–	–	–	84,000	–	84,000	–	84,000
(Gain) loss on asset disposals, net	16,774	1,502	1,116	76	–	2,694	158	19,626
(Gain) loss on sale of business and other exit costs, net	(27,694)	(2,201)	–	–	–	(2,201)	20,816	(9,079)
(Gain) loss on license sales and exchanges, net	(91,446)	–	–	–	–	–	–	(91,446)
Interest expense	42,712	(1,939)	(67)	1,203	–	(803)	41,866	83,775
Income tax expense (benefit) (1)	746	–	–	–	–	12,571	(6,041)	7,276
Adjusted EBITDA (2)	\$381,316	\$202,536	\$15,896	\$2,914	\$–	\$221,346	\$ (126)	\$602,536
Investments in unconsolidated entities	\$296,900	\$3,804	\$–	\$–	\$–	\$3,804	\$ 34,744	\$335,448
Total assets	\$6,257,075	\$1,385,524	\$543,731	\$255,519	\$–	\$2,184,774	\$ 198,699	\$8,640,548
	\$375,960	\$84,511	\$20,998	\$23,179	\$–	\$128,688	\$ 3,856	\$508,504

Capital
expenditures

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(1) Income tax expense (benefit) is not provided at the individual segment level for Wireline, Cable and HMS. TDS calculates income tax expense for "TDS Telecom Total".

(2) Adjusted earnings before interest, taxes, depreciation, amortization and accretion ("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. Adjusted EBITDA is defined as net income, adjusted for the items set forth in the reconciliation above. Adjusted EBITDA excludes these items in order to show operating results on a more comparable basis from period to period. From time to time, TDS may also exclude other items from Adjusted EBITDA if such items help reflect operating results on a more comparable basis. TDS does not

intend to imply that
any of such items
that are excluded are
non-recurring,
infrequent or
unusual; such items
may occur in the
future. TDS
believes Adjusted
EBITDA is a useful
measure of TDS'
operating results
before significant
recurring non-cash
charges, discrete
gains and losses, and
other items as
indicated above.

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

Telephone and Data Systems, Inc. ("TDS") is a diversified telecommunications company providing high-quality telecommunications services to approximately 4.8 million wireless customers and 1.2 million wireline and cable connections at September 30, 2015. TDS conducts its wireless operations through its 84% owned subsidiary, United States Cellular Corporation ("U.S. Cellular"). TDS provides wireline services, cable services and hosted and managed services through its wholly-owned subsidiary, TDS Telecommunications Corporation ("TDS Telecom").

The following discussion and analysis should be read in conjunction with TDS' interim unaudited consolidated financial statements and notes included in Item 1 above, and with the description of TDS' business, its audited consolidated financial statements and Management's Discussion and Analysis 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, 2014.

OVERVIEW

The following is a summary of certain selected information contained in the comprehensive Management's Discussion and Analysis of Financial Condition and Results of Operations that follows. The overview does not contain all of the information that may be important. You should carefully read the entire Management's Discussion and Analysis of Financial Condition and Results of Operations and not rely solely on the overview.

The following provides historical and forward-looking information and analysis about TDS' existing business segments. TDS' business segments reflected in this Form 10-Q for the quarter ended September 30, 2015 are U.S. Cellular, TDS Telecom's Wireline, Cable, and Hosted and Managed Services ("HMS") operations. TDS operations also include the wholly-owned subsidiaries Suttle-Straus, Inc. ("Suttle-Straus") and Airadigm Communications, Inc. ("Airadigm"). Suttle-Straus and Airadigm's financial results were not significant to TDS' operations. All of TDS' segments operate only in the United States, except for HMS, which includes an insignificant foreign operation. See Note 13 — Business Segment Information for summary financial information on each business segment.

U.S. Cellular

In its consolidated operating markets, U.S. Cellular serves approximately 4.8 million customers in 23 states. As of September 30, 2015, U.S. Cellular's average penetration rate in its consolidated operating markets was 15%. U.S. Cellular operates on a customer satisfaction strategy, striving to meet or exceed customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network. U.S. Cellular's business development strategy is to obtain interests in and access to wireless licenses in its current operating markets and in areas that are adjacent to or in close proximity to its other wireless licenses, thereby building contiguous operating market areas with strong spectrum positions. U.S. Cellular believes that the acquisition of additional licenses within its current operating markets will enhance its network capacity to meet customers' network performance expectations. In addition, U.S. Cellular anticipates that grouping its operations into market areas will continue to provide it with certain economies of scale in its capital and operating costs.

Financial and operating highlights for the nine months ended September 30, 2015 included matters discussed in the notes to the financial statements and the following:

- In March 2015, U.S. Cellular announced that it would discontinue its loyalty rewards program effective September 1, 2015. All unredeemed rewards points expired at that time and the deferred revenue balance related to such expired points was recognized as service revenues. The amount of deferred revenue so recognized was \$58.2 million.
- U.S. Cellular completed certain license exchanges, indirectly participated in a spectrum auction and completed the sale of towers outside of its operating markets. See Note 6 — Acquisitions, Divestitures and Exchanges and Note 10 — Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information related to these transactions.
- Retail customer net additions were 75,000 in 2015 compared to net losses of 60,000 in 2014. In the postpaid category, there were net additions of 43,000 in 2015, compared to net losses of 67,000 in 2014. Postpaid results improved significantly due to effective pricing, promotions and retention programs as well as enhanced device offerings and the resolution of billing system conversion issues. In the prepaid category, net additions were 32,000 in 2015 compared to 7,000 in 2014.
- Total customers were 4,807,000 at September 30, 2015, including 4,721,000 retail customers (98% of total). Postpaid customers comprised approximately 92% of U.S. Cellular's retail customers as of September 30, 2015.
- The postpaid churn rate was 1.4% in 2015 compared to 1.9% in 2014. The prepaid churn rate was 5.4% in 2015 compared to 6.6% in 2014.

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- Service average revenue per user (“ARPU”) decreased to \$59.29 in 2015 from \$60.43 in 2014 due to a decrease in billed ARPU and inbound roaming revenues. Billed ARPU decreased to \$53.00 in 2015 from \$53.47 in 2014 reflecting a decrease in postpaid ARPU due to discounts on shared data plans provided to customers on equipment installment plans and those providing their own device at the time of activation or renewal, partially offset by the impact of the discontinued loyalty rewards points program and an increase in prepaid ARPU. The expiration of the loyalty rewards points had the effect of increasing postpaid ARPU by \$1.50 for the nine months ended September 30, 2015.
- Postpaid billed average revenue per account (“ARPA”) increased to \$138.55 in 2015 from \$132.19 in 2014 due to increased adoption of shared data plans, an increase in the number of devices per account and the impact of the discontinued loyalty rewards points program. The expiration of the loyalty rewards points had the effect of increasing postpaid ARPA by \$3.74 for the nine months ended September 30, 2015.
- Postpaid handset customers on smartphone service plans increased to 72% as of September 30, 2015 compared to 62% as of September 30, 2014. In addition, smartphones represented 87% of all handsets sold in 2015 compared to 79% in 2014.
- Total operating revenues increased \$125.8 million, or 4%, to \$3.0 billion in 2015 due primarily to higher equipment sales revenues reflecting increased sales under equipment installment plans.
- Operating income increased \$430.4 million, to \$336.5 million in 2015. Gain (loss) on license sales and exchanges, net and Gain (loss) on sale of business and other exit costs, net, combined, contributed \$260.7 million and \$119.1 million to operating income in 2015 and 2014, respectively. Operating income increased due to these gains, the impact of loyalty rewards points expiration and lower loss on equipment sold, selling, general and administrative expenses, and depreciation, amortization and accretion expense, partially offset by a decrease in billed ARPU and higher system operations expense.
- In July 2015, U.S. Cellular borrowed \$225 million under a senior term loan credit facility (“Term Loan”) to be used for general corporate purposes, including working capital, spectrum purchases and capital expenditures.
- Total additions to Property, plant and equipment were \$334.9 million, including expenditures to complete the network rollout of fourth generation Long-term Evolution (“4G LTE”) equipment, construct cell sites, increase capacity in existing cell sites and switches, outfit new and remodel existing retail stores, and enhance billing and other customer management related systems and platforms. Total cell sites in service increased 0.6% year-over-year to 6,246.

U.S. Cellular anticipates that its future results may be affected by the following factors:

- Effects of industry competition on service and equipment pricing;
- Impacts of selling devices under equipment installment plans, including potential variability in the number of customers choosing to sign an equipment installment contract as well as uncertainties related to the number, timing and realizable value of device trade-ins under equipment installment plans;
- Relative ability to attract and retain customers in a competitive marketplace in a cost effective manner;
- The nature and rate of growth in the wireless industry, requiring U.S. Cellular to grow revenues primarily from selling additional products and services to its existing customers, increasing the number of multi-device users among its existing customers, increasing data products and services and attracting wireless customers switching from other wireless carriers;
- Rapid growth in the demand for new data devices and services which may result in increased operating expenses and the need for additional investment in spectrum, network capacity and enhancements;

- Uncertainty related to various Federal Communications Commission (“FCC”) rules and proceedings, and litigation relating thereto;
 - The ability to negotiate satisfactory 4G LTE data roaming agreements with additional wireless operators; and
 - The effects of the following:
- U.S. Cellular completed the migration of its customers to a new Billing and Operational Support System (“B/OSS”) in the third quarter of 2013. In the fourth quarter of 2014, U.S. Cellular entered into certain arrangements pursuant to which U.S. Cellular now outsources certain support functions for its B/OSS to a third-party vendor. B/OSS is a complex system and any future operational problems with the system, including any failure by the vendor to provide the required level of service under the outsourcing arrangements, could have adverse effects on U.S. Cellular’s results of operations or cash flows;

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- U.S. Cellular holds a 5.5% ownership interest in the Los Angeles SMSA Limited Partnership (“LA Partnership”). U.S. Cellular has been informed by the general partner of the LA Partnership that the LA Partnership will not make a cash distribution in 2015. U.S. Cellular currently expects that it might receive a cash distribution in the latter half of 2016, although the amount of any such distribution is uncertain.

See Results of Operations—U.S. Cellular.

TDS Telecom

TDS Telecom provides wireline and cable broadband, video and voice services to approximately 1.2 million connections in 35 states. The overall strategy for the wireline and cable businesses is to own the best pipe in the market in order to capitalize on data growth and the need for higher broadband speeds. In addition, TDS Telecom provides a wide range of Information Technology (“IT”) services including colocation, dedicated hosting, hosted application management, cloud computing services and planning, engineering, procurement, installation, sales and management of IT infrastructure hardware solutions.

TDS Telecom’s wireline and cable strategy is to focus on broadband offerings and be the preferred communications solutions provider in its markets for both residential and commercial customers by developing and delivering high-quality broadband, video and voice products and services that meet or exceed customers’ needs, and to outperform the competition by delivering superior customer service. The company is leveraging existing processes, procedures, shared support teams, commercial expertise, and customer service focus in providing services to Wireline and Cable customers.

Through its hosted and managed services business, OneNeck IT Solutions, TDS Telecom aims to grow recurring revenues from mid-market businesses by leveraging core competencies in network management, IT, customer service and reliability to take advantage of the growing IT outsourcing marketplace.

On September 1, 2014, TDS acquired substantially all of the assets of a group of companies operating as BendBroadband. This acquisition impacts the comparability of TDS Telecom’s operating results.

TDS Telecom’s financial results for the nine months ended September 30, 2015 included the following:

- Operating revenues increased \$67.7 million, or 8%, to \$874.2 million in 2015 due to \$57.2 million from acquisitions. HMS equipment sales increased \$14.0 million.
- Operating expenses decreased \$22.3 million, or 3%, to \$810.3 million in 2015 due to the impact of an \$84.0 million non-cash goodwill impairment loss in 2014 offset by a \$45.7 million increase from acquisitions. HMS equipment cost of goods sold increased \$10.6 million.

TDS anticipates that TDS Telecom’s future results will be affected by the following factors:

- Continued increases in consumer data usage and demand for high-speed data services;
- The expansion of Internet Protocol television (“IPTV”) into additional market areas;
- Continued focus on customer retention programs, including discounting for “triple-play” bundles including broadband, video or satellite video and voice;
- Continued growth in hosted and managed services which may result in the need for additional investment in data centers;

- Continued increases in competition from wireless and other wireline providers, cable providers, satellite video providers, fiber overbuilders and technologies such as Voice over Internet Protocol (“VoIP”), DOCSIS 3.0 and further upgrades, and fourth-generation (“4G”) mobile technology;
- Continued declines in Wireline voice connections and wholesale minutes of use;
- Continued increases in content costs related to video products;
- The National Broadband Plan and other rulemaking by the FCC, including uncertainty related to future funding from the Universal Service Fund (“USF”), broadband requirements, intercarrier compensation, changes in access reform and net neutrality; and
- Potential acquisitions or divestitures by TDS and/or TDS Telecom of wireline, cable, HMS or other businesses.

See Results of Operations—TDS Telecom.

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REGULATORY MATTERS

The discussion below includes updates related to recent regulatory developments. These updates should be read in conjunction with the disclosures previously provided under “Regulatory Matters” in TDS’ Form 10-K for the year ended December 31, 2014.

FCC Net Neutrality Order

In February 2015, the FCC adopted an Open Internet Order relating to new net neutrality rules. The rules became effective in June 2015. The order reclassified high-speed, or broadband, internet access service as a “telecommunication service,” making it subject to common carrier regulation under Title II of the Communications Act of 1934. The order applies equally to fixed and wireless broadband internet service providers and thus applies to internet broadband services provided by telephone, cable and wireless providers.

The rules prohibit (i) blocking (broadband providers may not block access to legal content, applications, services, or non-harmful devices); (ii) throttling (broadband providers may not impair or degrade lawful Internet traffic on the basis of content, applications, services, or non-harmful devices); and (iii) paid prioritization (broadband providers may not favor some lawful internet traffic over other lawful traffic in exchange for consideration, i.e., internet “fast lanes” are prohibited). Also, internet service providers may not prioritize content and services of their affiliates. In addition, the FCC has now asserted jurisdiction over internet traffic exchange, so interconnection arrangements will now be subject to a statutory requirement that all charges, practices, classifications, and regulations for and in connection with interconnection must be just and reasonable. The rules also include a general conduct standard that will be applied on a case-by-case basis to address questionable practices as they occur that unreasonably interfere with or unreasonably disadvantage lawful content, applications, services, or devices to be used by end users (individuals or entities that use a broadband internet access service), or made available by edge providers (individuals or entities that provide any content, application, or service over the internet, and any individual or entity that provides a device used for accessing any content, application, or service over the internet). Although broadband internet access providers will be allowed to engage in reasonable network management practices, it is uncertain what practices will be permitted by the FCC. The order also expands the FCC’s current internet transparency rules.

All of these requirements will be subject to FCC enforcement and potential third-party claims for damages or equitable relief. Under Title II, the FCC will have broad regulatory authority over internet services and internet service providers. Although the FCC indicated that it will forbear from a number of utility-style regulations, such as rate regulation, tariffs, and unbundling requirements, the FCC could determine to apply such regulations and requirements in the future. Also, it is uncertain if internet services may be subject to the Federal Universal Service Fund (“USF”) contributions or taxation in the future as a result of the reclassification under Title II. Lawsuits have been filed challenging the net neutrality rules and the FCC’s decision to reclassify broadband internet access service under Title II. TDS cannot predict the outcome of these proceedings or the impact on its business.

Changes to FCC’s Designated Entity Rules

TDS participated in prior FCC spectrum auctions through limited partnerships that qualified as “designated entities” under FCC rules and, as such were eligible for bid credit discounts of 25% with respect to licenses won in the auctions. In July 2015, the FCC adopted a Report and Order that amended the FCC’s designated entity rules. The amended rules include caps on bid credits that designated entities may receive in future auctions and modify the attribution rules. The amended rules also restrict certain joint bidding agreements but permit certain other arrangements involving more than one party. Additionally, the amended rules make certain other changes to the FCC’s

competitive bidding rules. TDS is evaluating how these amended rules may impact future FCC spectrum auctions and its potential participation through a designated entity.

FCC Auction 1000

The FCC has scheduled an auction of 600 MHz spectrum licenses, referred to as Auction 1000. Auction 1000 involves: (1) a “reverse auction” in which broadcast television licensees submit bids to voluntarily relinquish spectrum usage rights in exchange for payments; (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. Interested broadcasters must file their applications by December 18, 2015 and forward auction bidders must file applications by January 28, 2016. TDS evaluates opportunities to acquire additional spectrum in FCC auctions and may participate in the forward auction as a bidder or member of a bidding group. If TDS participates in the forward auction, information relating to this will be disclosed at a later time, subject to FCC rules. In such event, applicable FCC anti-collusion rules will place certain restrictions on public disclosures and business communications with other companies relating to TDS’ participation, commencing on the application deadline of January 28, 2016 until the down payment deadline for Auction 1000, which will be ten business days after release of the FCC’s Channel Reassignment Public Notice. These anti-collusion rules, which could last six months or more, may restrict the conduct of certain TDS activities with other applicants in Auction 1000 as well as with nationwide providers of wireless services which are not applicants in Auction 1000. The restrictions could have an adverse effect on TDS’ business, financial condition or results of operations.

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Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

RESULTS OF OPERATIONS — CONSOLIDATED

				Percentage
Nine Months Ended September 30, (Dollars in thousands, except per share amounts)	2015	2014	Change	Change
Operating revenues				
U.S. Cellular	\$3,009,818	\$2,884,003	\$125,815	4%
TDS	874,172	806,423	67,749	8%
Telecom				
All other (1)	17,796	21,951	(4,155)	(19)%
Total				
operating	3,901,786	3,712,377	189,409	5%
revenues				
Operating expenses				
U.S. Cellular	2,673,281	2,977,839	(304,558)	(10)%
TDS	810,294	832,560	(22,266)	(3)%
Telecom				
All other (1)	10,027	55,798	(45,771)	(82)%
(2)				
Total				
operating	3,493,602	3,866,197	(372,595)	(10)%
expenses				
Operating income				
(loss)				
U.S. Cellular	336,537	(93,836)	430,373	>100%
TDS	63,878	(26,137)	90,015	>100%
Telecom				
All other (1)	7,769	(33,847)	41,616	>100%
(2)				
Total				
operating	408,184	(153,820)	562,004	>100%
income				
(loss)				
Investment and other				
income (expense)				
Equity in				
earnings of				
unconsolidated	109,823	108,198	1,625	2%
entities				
Interest and				
dividend	28,119	9,763	18,356	>100%
income				

Interest expense	(102,792)	(83,775)	(19,017)	(23)%
Other, net	142	279	(137)	(49)%
Total investment and other income (expense)	35,292	34,465	827	2%
Income (loss) before income taxes	443,476	(119,355)	562,831	>100%
Income tax expense	178,780	7,276	171,504	>100%
Net income (loss)	264,696	(126,631)	391,327	>100%
Less: Net income (loss) attributable to noncontrolling interests, net of tax	44,827	(6,817)	51,644	>100%
Net income (loss) attributable to TDS shareholders	219,869	(119,814)	339,683	>100%
Preferred dividend requirement	(37)	(37)	—	-
Net income (loss) available to common shareholders	\$219,832	\$(119,851)	\$339,683	>100%

- (1) Consists of corporate and other operations and intercompany eliminations.

- (2) Compared to U.S. Cellular, TDS recognized an incremental gain of \$11.9 million on the Tower Sale in the nine months ended September 30, 2015 as a result of a lower basis in the assets disposed. See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information. In 2014, TDS recognized expenses of \$20.8 million related to exit and disposal activities due to a License Purchase and Customer Recommendation Agreement between U.S. Cellular and Airadigm.

Operating revenues and expenses

See Results of Operations — U.S. Cellular and Results of Operations — TDS Telecom below for factors that affected consolidated Operating revenues and expenses.

Equity in earnings of unconsolidated entities

TDS' investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") through U.S. Cellular contributed \$58.1 million and \$57.8 million to Equity in earnings of unconsolidated entities in 2015 and 2014, respectively.

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Interest and dividend income

Interest and dividend income increased due to imputed interest income recognized on equipment installment plans of \$23.8 million and \$3.4 million in 2015 and 2014, respectively. See Note 3 — Equipment Installment Plans in the Notes to the Consolidated Financial Statements for additional information.

Interest expense

The increase in interest expense was due primarily to U.S. Cellular's issuance of \$275 million of 7.25% Senior Notes in December 2014 and the \$225 million Term Loan in July 2015.

Income tax expense

See Note 4 — Income Taxes in the Notes to Consolidated Financial Statements for additional discussion of the overall effective tax rate on Income (loss) before income taxes.

Net income attributable to noncontrolling interests, net of tax

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 TDS or U.S. Cellular subsidiaries' net income.

	Nine Months Ended September 30, 2015 2014	
(Dollars in thousands)		
Net income (loss) attributable to noncontrolling interests, net of tax		
U.S. Cellular noncontrolling public shareholders'	\$38,506	\$(3,454)
Noncontrolling shareholders' or partners'	6,321	(3,363)
	\$44,827	\$(6,817)

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RESULTS OF OPERATIONS — U.S. CELLULAR

TDS provides wireless telephone service through U.S. Cellular, an 84%-owned subsidiary. U.S. Cellular owns, manages and invests in wireless markets throughout the United States.

Summary Operating Data for U.S. Cellular Consolidated Markets

As of or for Nine Months Ended September 30,	2015	2014
Retail Customers		
Postpaid		
Total at end of period	4,341,000	4,200,000
Gross additions	591,000	638,000
Net additions (losses)	43,000	(67,000)
ARPU(1)	\$55.54	\$56.87
ARPA(2)	\$138.55	\$132.19
Churn rate(3)	1.4%	1.9%
Smartphone penetration(4)	72%	62%
Prepaid		
Total at end of period	380,000	350,000
Gross additions	209,000	214,000
Net additions	32,000	7,000
ARPU(1)	\$35.88	\$33.59
Churn rate(3)	5.4%	6.6%
Total customers at end of period	4,807,000	4,674,000
Billed ARPU(1)	\$53.00	\$53.47
Service revenue ARPU(1)	\$59.29	\$60.43
Smartphones sold as a percent of total handsets sold	87%	79%
Total Population		
Consolidated markets(5)(7)	50,313,000	60,136,000
Consolidated operating markets(5)(7)	31,814,000	31,729,000
Market penetration at end of period		
Consolidated markets(6)	10%	8%
Consolidated operating markets(6)	15%	15%
Capital expenditures (000s)	\$334,942	\$375,960
Total cell sites in service	6,246	6,209
Owned towers in service	3,957	4,487

Average Revenue per User (“ARPU”) metrics are calculated by dividing a revenue base by an average

(1) number of customers by the number of months in the period. These revenue bases and customer populations are shown below:

- a. Postpaid ARPU consists of total postpaid service revenues and postpaid customers.
- b. Prepaid ARPU consists of total prepaid service revenues and prepaid customers.
- c. Billed ARPU consists of total postpaid, prepaid and reseller service revenues and postpaid, prepaid and reseller customers.
- d. Service revenue ARPU consists of total postpaid, prepaid and reseller service revenues, inbound roaming and other service revenues and postpaid, prepaid and reseller customers.

- (2) Average Revenue per Account (“ARPA”) metric is calculated by dividing total postpaid service revenues by the average number of postpaid accounts by the number of months in the period.

- (3) Churn metrics represent the percentage of the postpaid or prepaid customers that disconnect service each month. These metrics represent the average monthly postpaid or prepaid churn rate for each respective period.

- (4) Smartphones represent wireless devices which run on an Android, Apple, BlackBerry or Windows Mobile operating system, excluding connected devices. Smartphone penetration is calculated by dividing postpaid smartphone customers by total postpaid handset customers.

- (5) During the third quarter of 2015, U.S. Cellular reassessed population statistics with respect to markets which U.S. Cellular consolidates and revised its calculations to more accurately accumulate such population statistics. As a result, prior period population data and corresponding market penetration ratios were revised for markets that U.S. Cellular currently consolidates, or previously consolidated in the periods presented. The decrease in the population of Consolidated markets is due primarily to the license exchange transactions of certain non-operating licenses in North Carolina in December 2014 and Illinois and Indiana in March 2015. Total Population is used only to calculate market penetration of consolidated markets and consolidated operating markets, respectively. See footnote (6) below.

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Market penetration is calculated by dividing the number of wireless customers at the end of the period by (6) the total population of consolidated markets and consolidated operating markets, respectively, as estimated by Claritas.

As licenses awarded in Auction 97 have not yet been granted, population statistics (7) related to such licenses have not been included in the population data.

Components of Operating Income (Loss)

Nine Months Ended September 30, (Dollars in thousands)	2015	2014	Change	Percentage Change
Retail service	\$2,278,049	\$2,254,716	\$23,333	1%
Inbound roaming	148,542	174,283	(25,741)	(15)%
Other	121,953	119,150	2,803	2%
Service revenues	2,548,544	2,548,149	395	-
Equipment sales	461,274	335,854	125,420	37%

Total operating revenues	3,009,818	2,884,003	125,815	4%
System operations (excluding Depreciation, amortization	585,935	567,488	18,447	3%
and accretion reported below)				
Cost of equipment sold	779,228	850,314	(71,086)	(8)%
Selling, general and administrative	1,106,524	1,197,361	(90,837)	(8)%
Depreciation, amortization and accretion	450,035	465,042	(15,007)	(3)%
(Gain) loss on asset disposals, net	12,268	16,774	(4,506)	(27)%
(Gain) loss on sale of business and other exit costs, net	(113,825)	(27,694)	(86,131)	>(100)%
(Gain) loss on license sales and exchanges, net	(146,884)	(91,446)	(55,438)	(61)%
Total operating expenses	2,673,281	2,977,839	(304,558)	(10)%
Operating income (loss)	\$336,537	\$(93,836)	\$430,373	>100%

Operating Revenues

Service revenues

Service revenues consist primarily of: (i) charges for access, airtime, roaming, recovery of regulatory costs and value added services, including data products and services, provided to U.S. Cellular's retail customers and to end users through third party resellers ("retail service"); (ii) charges to other wireless carriers whose customers use U.S. Cellular's wireless systems when roaming; and (iii) amounts received from the Federal Universal Service Fund ("USF"), tower rental revenue, and revenue from spectrum leases.

Retail service revenues

Retail service revenues increased due primarily to the growth in U.S. Cellular's average customer base, offset by a decrease in billed ARPU, net of the impact of revenues recognized from expired rewards points.

Billed ARPU decreased to \$53.00 in 2015 from \$53.47 in 2014, reflecting a decrease in postpaid ARPU of \$1.33 due primarily to discounts on shared data plans provided to customers on equipment installment plans and those providing their own device at the time of activation or renewal, partially offset by the growth in customers, increased adoption of shared data plans and the \$1.50 postpaid ARPU impact of the revenue recognized from expired rewards points.

U.S. Cellular expects continued pressure on retail service revenues in the foreseeable future due to industry competition for customers and related effects on pricing of service plan offerings offset to some degree by continued adoption of smartphones and data usage. Beginning in the second quarter of 2014, U.S. Cellular expanded its offerings of equipment installment plans. To the extent that customers adopt these plans, U.S. Cellular expects an increase in equipment sales revenues. However, certain of the equipment installment plans provide the customer with a reduction in the monthly access charge for the device; thus, to the extent that existing customers adopt such plans, U.S. Cellular

expects a reduction in retail service revenues and ARPU.

Inbound roaming revenues

Inbound roaming revenues decreased due primarily to lower rates for both voice and data traffic and lower volumes for voice traffic.

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Other revenues

Other revenues increased due primarily to increases in revenues from spectrum leases and mobile applications.

Revenues representing amounts received from the Federal USF in 2015 were \$69.1 million, which remained flat year over year. Pursuant to the FCC's Reform Order ("Reform Order"), U.S. Cellular's current Federal USF support is being phased down at the rate of 20% per year beginning July 1, 2012. The Phase II Mobility Fund was not operational as of July 2014 and therefore, as provided by the Reform Order, the phase down was suspended at 60% of the baseline amount. U.S. Cellular will continue to receive USF support at the 60% level until the FCC takes further action. At this time, U.S. Cellular cannot predict what changes that the FCC might make to the USF high cost support program and, accordingly, cannot predict whether such changes will have a material adverse effect on U.S. Cellular's business, financial condition or results of operations.

Equipment sales revenues

Equipment sales revenues include revenues from sales of wireless devices and related accessories to both new and existing customers, as well as revenues from sales of devices to agents. U.S. Cellular offers a competitive line of quality wireless devices to both new and existing customers. U.S. Cellular's customer acquisition and retention efforts include offering new wireless devices to customers at discounted prices. U.S. Cellular also continues to sell wireless devices to agents including national retailers; this practice enables U.S. Cellular to provide better control over the quality of wireless devices sold to its customers, establish roaming preferences and earn quantity discounts from wireless device manufacturers which are passed along to agents and other retailers.

Equipment sales revenues increased due primarily to an increase in average revenue per device sold (including the impact of sales under equipment installment plans and a mix shift to smartphones and connected devices) and an increase in sales of accessories, partially offset by a decrease in total devices sold of 9%. Equipment sales revenues in 2015 include \$226.1 million related to equipment installment plan sales compared to \$111.8 million in 2014. See Note 3 — Equipment Installment Plans in the Notes to Consolidated Financial Statements for additional information.

Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

System operations expenses (excluding Depreciation, amortization, and accretion) include charges from telecommunications service providers for U.S. Cellular's customers' use of their facilities, costs related to local interconnection to the wireline network, charges for cell site rent and maintenance of U.S. Cellular's network, long-distance charges, outbound roaming expenses and payments to third party data product and platform developers.

Key components of the net change in System operations expenses were as follows:

- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased \$21.7 million, or 16%, due primarily to an increase in data roaming usage.
- Maintenance, utility and cell site expenses increased \$13.9 million, or 5%, driven primarily by an increase in cell site and switch maintenance.
- Customer usage expenses decreased by \$17.1 million, or 11%, driven by lower fees for platform and content providers and a decrease in toll message charges driven by rate reductions.

U.S. Cellular expects system operations expenses to increase in the future to support the continued growth in cell sites and other network facilities as it continues to add capacity, enhance quality and deploy new technologies as well as to support increases in total customer usage, particularly data usage. However, these increases are expected to be offset to some extent by cost savings generated by shifting data traffic to the 4G LTE network from the 3G network.

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Cost of equipment sold

Cost of equipment sold decreased due primarily to a 9% reduction in the total number of devices sold and a slight decrease in the average cost per device sold due to lower costs from original equipment manufacturers, partially offset by higher sales of accessories. Cost of equipment sold in 2015 includes \$300.7 million related to equipment installment plan sales compared to \$160.9 million in 2014.

U.S. Cellular's loss on equipment, defined as equipment sales revenues less cost of equipment sold, was \$318.0 million and \$514.5 million for 2015 and 2014, respectively. The \$196.5 million decrease in loss on equipment was driven by a reduction in the total number of devices sold and a higher mix of equipment installment plan sales which have a lower loss per device. During the nine months ended September 30, 2015 and 2014, 43% and 20% of total devices sold to postpaid customers were made under equipment installment plans, respectively. In addition, lower handset sales contributed to the decline in loss on equipment.

U.S. Cellular expects loss on equipment to continue to be a significant cost in the foreseeable future as iconic data-centric wireless devices continue to increase in cost and wireless carriers continue to experience competitive pricing pressures. However, U.S. Cellular expects sales of devices under equipment installment plans will offset loss on equipment to some degree.

Selling, general and administrative expenses

Selling, general and administrative expenses include salaries, commissions and expenses of field sales and retail personnel and facilities; telesales department salaries and expenses; agent commissions and related expenses; corporate marketing and merchandise management; and advertising expenses. Selling, general and administrative expenses also include bad debts expense, costs of operating customer care centers and corporate expenses.

Key components of the net change in Selling, general and administrative expenses were as follows:

- Selling and marketing expense decreased by \$22.9 million, or 4%, due primarily to decreases in labor and commissions expenses, partially offset by increases in advertising expenses.
- General and administrative expense decreased by \$67.9 million, or 10%, due primarily to lower consulting expenses related to the billing system updates and customer service operations and lower rates for roaming administration.

Depreciation, amortization and accretion expenses

Depreciation, amortization and accretion decreased due primarily to the cessation of depreciation related to the Divestiture Transaction and by certain assets becoming fully depreciated, partially offset by an increase in amortization expense related to billing system updates. See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

(Gain) loss on asset disposals, net

(Gain) loss on asset disposals, net was a loss in both 2015 and 2014 due primarily to write-offs and disposals of certain network assets.

(Gain) loss on sale of business and other exit costs, net

The net gain in 2015 was due primarily to a \$107.7 million gain recognized from the Tower Sale. The net gain in 2014 resulted from the continuing impact of the Divestiture Transaction. See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

(Gain) loss on license sales and exchanges, net

The net gain in 2015 was due primarily to the license exchange of certain of U.S. Cellular's PCS licenses for certain other PCS licenses and cash in March 2015. The net gain in 2014 resulted from the sale of the St. Louis area non-operating market license and the license exchange in Milwaukee. See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

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RESULTS OF OPERATIONS — TDS TELECOM

TDS Telecom provides broadband, video and voice telecommunications services in its Wireline and Cable segments, and provides hosted and managed services in its HMS segment.

On September 1, 2014, TDS acquired substantially all of the assets of BendBroadband, a full-service cable communications company. As part of the agreement, TDS also acquired a cable advertising and broadcast business and a Tier III data center providing colocation and managed services. The operations of the cable and cable advertising and broadcast businesses are included in the Cable segment. The operations of the data center are included in the HMS segment. This acquisition impacts the comparability of TDS Telecom's operating results.

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The following table summarizes customer connections for TDS Telecom's Wireline and Cable operations:

As of or for the Nine Months Ended September 30,	2015	2014	Change
Wireline			
Residential connections			
Voice (1)	325,900	340,300	(14,400)
Broadband (2)	231,600	231,600	–
IPTV (3)	30,300	20,700	9,600
Wireline residential connections	587,800	592,600	(4,800)
Total residential revenue per connection (4)	\$42.42	\$41.10	\$1.32
Commercial connections			
Voice (1)	176,700	199,300	(22,600)
Broadband (2)	23,000	25,300	(2,300)
managedIP (5)	145,900	137,700	8,200
Wireline commercial connections	345,600	362,300	(16,700)
Total Wireline connections	933,400	954,900	(21,500)
Cable			
Cable connections			
Video (6)	108,300	109,100	(800)
Broadband (7)	114,600	106,400	8,200
Voice (7)	54,000	41,800	12,200
Cable connections	276,900	257,300	19,600

(1) The individual circuit connecting customers to TDS Telecom's central office facilities.

(2) The number of customers provided high-capacity data circuits via various technologies, including DSL and dedicated internet circuit technologies.

(3) The number of customers provided video services using IP networking technology.

- (4) Total residential revenue per connection is calculated by dividing the average residential revenue for the period by the average number of residential connections for the period.

- (5) The number of telephone handsets, data lines and IP trunks providing communications using IP networking technology.

- (6) 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.

- (7) Broadband and voice connections reflect billable number of lines into a building for high speed data and voice services, respectively.

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TDS Telecom

Components of Operating Income (Loss)

			Percentage	
Nine Months Ended September 30,	2015	2014	Change	Change
(Dollars in thousands)				
Operating revenues				
Wireline	\$527,161	\$536,289	\$(9,128)	(2)%
Cable	132,044	73,506	58,538	80%
HMS	218,189	198,587	19,602	10%
Intra-company elimination	(3,222)	(1,959)	(1,263)	(64)%
Total operating revenues	874,172	806,423	67,749	8%
Operating expenses				
Wireline	459,987	460,647	(660)	-
Cable	125,725	73,816	51,909	70%
HMS	227,804	300,056	(72,252)	(24)%
Intra-company elimination	(3,222)	(1,959)	(1,263)	(64)%
Total operating expenses	810,294	832,560	(22,266)	(3)%
Total operating income (loss)	\$63,878	\$(26,137)	\$90,015	>100%

The Wireline business has continued to experience secular declines in its legacy revenues which have not been offset by new product revenues. Increases in Cable and HMS revenues due to acquisitions and organic growth have contributed to overall growth in revenues. In 2014, an \$84.0 million impairment loss on the carrying value of the HMS goodwill was recognized.

Wireline Operations

Components of Operating Income

			Percentage	
Nine Months Ended September 30,	2015	2014	Change	Change
(Dollars in thousands)				
Service revenues				

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Residential	\$224,470	\$ 219,766	\$ 4,704	2%
Commercial	166,197	172,631	(6,434)	(4)%
Wholesale	135,016	142,483	(7,467)	(5)%
Total service revenues	525,683	534,880	(9,197)	(2)%
Equipment and product sales	1,478	1,409	69	5%
Total operating revenues	527,161	536,289	(9,128)	(2)%
Cost of services (excluding Depreciation, amortization and accretion reported below)	188,727	192,777	(4,050)	(2)%
Cost of equipment and products	1,675	1,793	(118)	(7)%
Selling, general and administrative	144,931	140,855	4,076	3%
Depreciation, amortization and accretion	124,440	125,921	(1,481)	(1)%
(Gain) loss on asset disposals, net	3,373	1,502	1,871	>100%
(Gain) loss on sale of business and other exit costs, net	(3,159)	(2,201)	(958)	(44)%
Total operating expenses	459,987	460,647	(660)	-
Total operating income	\$67,174	\$ 75,642	\$ (8,468)	(11)%

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Residential revenues, which consist of broadband, video, and voice services, increased in 2015 as growth in data and IPTV more than offset the decline in legacy voice services. A 3% increase in average revenue per residential connection driven by price increases for broadband and video services, growth in customers opting for faster broadband speeds and growth in customers selecting higher tier IPTV packages increased revenues \$3.3 million. IPTV average connections grew 56% increasing revenues \$6.9 million, while legacy voice connections declined by 4% decreasing revenues by \$3.8 million.

Commercial revenues, which consist of broadband and voice services and sales and installation of IP-based telecommunication systems, decreased in 2015. Declining legacy voice and data connections reduced revenues \$10.7 million, while 8% growth in average managed IP connections increased commercial revenue \$4.5 million.

Wholesale revenues, which represent compensation from other carriers for utilizing TDS Telecom's network infrastructure and federal and state regulatory recoveries, decreased in 2015 due primarily to a \$2.6 million reduction in revenues received through inter-state and intra-state regulatory mechanisms and \$1.1 million due to a 10% reduction in intra-state minutes-of-use.

Cost of services decreased in 2015 due primarily to \$9.6 million in reduced costs of provisioning circuits, purchasing unbundled network elements and providing long-distance services, offset by \$5.5 million in increased charges related to the growth in IPTV.

Selling, general and administrative expense increased in 2015 due to \$2.3 million of employee-related expenses and a \$1.9 million increase in Federal Universal Service Fund contribution expense.

The divestiture of certain wireline companies resulted in a Gain on sale of business and other exit costs, net in 2015 and 2014.

Cable Operations

Components of Operating Income (Loss)

Nine Months Ended September 30, (Dollars in thousands)	Percentage			
	2015	2014	Change	Change
Service revenues				
Residential	\$ 104,847	\$ 59,396	\$ 45,451	77%
Commercial	26,920	14,110	12,810	91%
Total service revenues	131,767	73,506	58,261	79%
Equipment and product sales	277	—	277	N/M
Total operating revenues	132,044	73,506	58,538	80%
Cost of services (excluding Depreciation,				
amortization and accretion reported below)	59,342	35,000	24,342	70%
Cost of equipment and products	100	—	100	N/M
	40,735	22,611	18,124	80%

Selling, general and
administrative

Depreciation, amortization and accretion	26,109	15,089	11,020	73%
(Gain) loss on asset disposals, net	(561)	1,116	(1,677)	>(100)%
Total operating expenses	125,725	73,816	51,909	70%
Total operating income (loss)	\$6,319	\$ (310)	\$ 6,629	>100%

N/M - Not Meaningful

Changes in operating revenues and operating expenses in 2015 are due primarily to acquisitions. Acquisitions contributed \$55.5 million to operating revenues. The remaining increase is due primarily to an increase in residential connections. Acquisitions contributed \$43.8 million to operating expenses. The remaining increase is due to higher advertising, plant maintenance and programming content costs.

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HMS Operations

Components of Operating Income (Loss)

Nine Months Ended September 30, (Dollars in thousands)	Percentage			
	2015	2014	Change	Change
Service revenues	\$88,311	\$ 82,757	\$ 5,554	7%
Equipment and product sales	129,878	115,830	14,048	12%
Total operating revenues	218,189	198,587	19,602	10%
Cost of services (excluding Depreciation, amortization and accretion reported below)	63,145	57,689	5,456	9%
Cost of equipment and products	108,777	98,161	10,616	11%
Selling, general and administrative	36,105	39,935	(3,830)	(10)%
Depreciation, amortization and accretion	19,798	20,195	(397)	(2)%
Loss on impairment of assets	—	84,000	(84,000)	N/M
(Gain) loss on asset disposals, net	(21)	76	(97)	>(100)%
Total operating expenses	227,804	300,056	(72,252)	(24)%
Total operating income (loss)	\$ (9,615)	\$ (101,469)	\$ 91,854	91%

N/M - Not Meaningful

Growth in recurring services and increases in professional services and maintenance resulted in an increase in Service revenues in 2015. Equipment and product sales revenues from sales of IT infrastructure hardware solutions increased in 2015 due to higher spending by existing customers. There was a corresponding increase in Cost of equipment and products and Cost of services needed to support revenue growth.

As a result of interim testing performed during the third quarter of 2014, TDS determined the carrying value of the HMS goodwill exceeded the implied fair value of goodwill. As a result, an \$84.0 million impairment loss was recognized.

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Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

RESULTS OF OPERATIONS — CONSOLIDATED

Three Months Ended September 30, (Dollars in thousands, except per share amounts)	2015	2014	Change	Percentage Change
Operating revenues				
U.S. Cellular	\$1,068,906	\$1,000,419	\$68,487	7%
TDS	299,374	273,157	26,217	10%
Telecom				
All other (1)	5,518	6,447	(929)	(14)%
Total				
operating	1,373,798	1,280,023	93,775	7%
revenues				
Operating expenses				
U.S. Cellular	991,181	1,051,773	(60,592)	(6)%
TDS	282,430	336,553	(54,123)	(16)%
Telecom				
All other (1)	6,753	17,112	(10,359)	(61)%
(2)				
Total				
operating	1,280,364	1,405,438	(125,074)	(9)%
expenses				
Operating income				
(loss)				
U.S. Cellular	77,725	(51,354)	129,079	>100%
TDS	16,944	(63,396)	80,340	>100%
Telecom				
All other (1)	(1,235)	(10,665)	9,430	88%
(2)				
Total				
operating	93,434	(125,415)	218,849	>100%
income				
(loss)				
Investment and other				
income (expense)				
Equity in				
earnings of				
unconsolidated	39,770	36,081	3,689	10%
entities				
Interest and				
dividend	9,617	4,526	5,091	>100%
income				

Interest expense	(35,043)	(27,170)	(7,873)	(29)%
Other, net	(56)	69	(125)	>(100)%
Total investment and other income (expense)	14,288	13,506	782	6%
Income (loss) before income taxes	107,722	(111,909)	219,631	>100%
Income tax expense	45,327	9,290	36,037	>100%
Net income (loss)	62,395	(121,199)	183,594	>100%
Less: Net income (loss) attributable to noncontrolling interests, net of tax	11,312	(5,169)	16,481	>100%
Net income (loss) attributable to TDS shareholders	51,083	(116,030)	167,113	>100%
Preferred dividend requirement	(12)	(12)	—	-
Net income (loss) available to common shareholders	\$51,071	\$(116,042)	\$167,113	>100%

(1) Consists of corporate and other operations and intercompany eliminations.

(2) In 2014, TDS recognized expenses of \$7.7 million related to exit and disposal activities due to a License Purchase and Customer Recommendation Agreement between U.S. Cellular and Airadigm.

Operating Revenues and Expenses

See Results of Operations — U.S. Cellular and Results of Operations — TDS Telecom below for factors that affected consolidated Operating Revenues and Expenses.

Equity in earnings of unconsolidated entities

TDS' investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") through U.S. Cellular contributed \$18.8 million and \$18.2 million to Equity in earnings of unconsolidated entities in 2015 and 2014, respectively.

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Interest and dividend income

Interest and dividend income increased due to imputed interest income recognized on equipment installment plans of \$9.0 million and \$2.7 million in 2015 and 2014, respectively. See Note 3 — Equipment Installment Plans in the Notes to the Consolidated Financial Statements for additional information.

Interest expense

The increase in interest expense was due primarily to U.S. Cellular's issuance of \$275 million of 7.25% Senior Notes in December 2014 and the \$225 million Term Loan in July 2015.

Income tax expense

See Note 4 — Income Taxes in the Notes to Consolidated Financial Statements for additional discussion of the overall effective tax rate on Income (loss) before income taxes.

Net income (loss) attributable to noncontrolling interests, net of tax

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 TDS or U.S. Cellular subsidiaries' net income.

	Three Months Ended September 30, 2015 2014	
(Dollars in thousands)		
Net income (loss) attributable to noncontrolling interests, net of tax		
U.S. Cellular noncontrolling public shareholders'	\$ 10,191	\$(3,524)
Noncontrolling shareholders' or partners'	1,121	(1,645)
	\$ 11,312	\$(5,169)

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RESULTS OF OPERATIONS — U.S. CELLULAR

Components of Operating Income (Loss)

Three Months Ended September 30, (Dollars in thousands)	2015	2014	Change	Percentage Change
Retail service	\$796,821	\$743,798	\$53,023	7%
Inbound roaming	59,169	66,577	(7,408)	(11)%
Other	39,970	40,688	(718)	(2)%
Service revenues	895,960	851,063	44,897	5%
Equipment sales	172,946	149,356	23,590	16%
Total operating revenues	1,068,906	1,000,419	68,487	7%
System operations (excluding Depreciation, amortization	198,982	199,750	(768)	-
and accretion reported below)				
Cost of equipment sold	287,256	307,862	(20,606)	(7)%
Selling, general and administrative	374,585	397,545	(22,960)	(6)%
Depreciation, amortization and accretion	152,369	148,952	3,417	2%
(Gain) loss on asset disposals, net	2,618	7,947	(5,329)	(67)%
(Gain) loss on sale of business and other exit costs, net	(643)	(10,283)	9,640	94%
(Gain) loss on license sales and exchanges, net	(23,986)	—	(23,986)	N/M
Total operating expenses	991,181	1,051,773	(60,592)	(6)%
Operating income (loss)	\$77,725	\$(51,354)	\$129,079	>100%

N/M - Not meaningful

Operating Revenues

Retail service revenues

Retail service revenues increased due primarily to the growth in U.S. Cellular's average customer base and an increase in billed ARPU, including the impact of revenue recognized from expired rewards points.

Billed ARPU increased to \$55.42 in 2015 from \$53.24 in 2014, reflecting an increase in postpaid ARPU of \$1.75 to \$58.12 due to increased adoption of shared data plans and the \$4.48 postpaid ARPU impact of the expired rewards

points, partially offset by discounts on shared data plans provided to customers on equipment installment plans and those providing their own device at the time of activation or renewal.

Inbound roaming revenues

Inbound roaming revenues decreased due primarily to lower rates for both voice and data and a decline in voice volume.

Other revenues

Other revenues decreased due primarily to a decrease in tower rent revenue due to the Tower Sale, partially offset by increases in revenue from spectrum leases and mobile applications. Revenues representing amounts received from the Federal USF in 2015 were \$23.0 million, which remained flat year over year.

Equipment sales revenues

Equipment sales revenues increased due primarily to an increase in average revenue per device sold (including the impact of sales under equipment installment plans and a mix shift to smartphones and connected devices) and an increase in sales of accessories, partially offset by a decrease in total devices sold of 3%. Equipment sales revenues in 2015 include \$89.2 million related to equipment installment plan sales compared to \$78.2 million in 2014. See Note 3 — Equipment Installment Plans in the Notes to Consolidated Financial Statements for additional information.

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Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

Key components of the net change in System operations expenses were as follows:

- Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased \$2.1 million, or 4%, due primarily to an increase in data roaming usage.
- Maintenance, utility and cell site expenses increased \$5.4 million, or 6%, driven primarily by an increase in cell site and switch maintenance and repairs.
- Customer usage expenses decreased by \$8.4 million, or 15%, driven by lower fees for platform and content providers, lower fixed usage costs due to circuit disconnections and lower net LTE migration costs, and a decrease in toll message charges driven by rate reductions.

Cost of equipment sold

Cost of equipment sold decreased due primarily to a 3% decrease in the total number of devices sold and a decrease in the average cost per device sold due to lower costs from original equipment manufacturers, slightly offset by higher sales of accessories. Cost of equipment sold in 2015 includes \$109.3 million related to equipment installment plan sales compared to \$113.5 million in 2014.

U.S. Cellular's loss on equipment, defined as equipment sales revenues less cost of equipment sold, was \$114.3 million and \$158.5 million for 2015 and 2014, respectively. The \$44.2 million decrease in loss on equipment was driven by higher equipment installment plan sales which have a lower loss per device. In addition, lower handset sales contributed to the decline in loss on equipment.

Selling, general and administrative expenses

Key components of the net change in Selling, general and administrative expenses were as follows:

- Selling and marketing expense decreased by \$6.3 million, or 3%, due primarily to decreases in labor and commissions, partially offset by increases in advertising expenses.
- General and administrative expense decreased by \$16.6 million, or 8%, due primarily to lower consulting expenses related to the billing system updates and customer service operations and lower rates for roaming administration.

(Gain) loss on asset disposals, net

(Gain) loss on asset disposals, net was a loss in both 2015 and 2014 due primarily to write-offs and disposals of certain network assets.

(Gain) loss on sale of business and other exit costs, net

The net gains in 2015 and in 2014 were due primarily to the continuing impact of the Divestiture Transaction. See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

(Gain) loss on license sales and exchanges, net

The net gain in 2015 was due primarily to the license exchange of certain of U.S. Cellular's PCS and AWS licenses for certain other PCS and AWS licenses and cash. See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information.

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RESULTS OF OPERATIONS – TDS TELECOM

TDS Telecom

Components of Operating Income (Loss)

				Percentage
Three Months Ended September 30, (Dollars in thousands)	2015	2014	Change	Change
Operating revenues				
Wireline	\$ 175,056	\$ 178,075	\$ (3,019)	(2)%
Cable	43,860	28,519	15,341	54%
HMS	81,642	67,543	14,099	21%
Intra-company elimination	(1,184)	(980)	(204)	(21)%
Total operating revenues	299,374	273,157	26,217	10%
Operating expenses				
Wireline	157,241	151,428	5,813	4%
Cable	42,871	29,396	13,475	46%
HMS	83,502	156,709	(73,207)	(47)%
Intra-company elimination	(1,184)	(980)	(204)	(21)%
Total operating expenses	282,430	336,553	(54,123)	(16)%
Total operating income (loss)	\$ 16,944	\$ (63,396)	\$ 80,340	>100%

The Wireline business has continued to experience secular declines in its legacy revenues which have not been offset by new product revenues. Increases in Cable and HMS revenues due to acquisitions and organic growth have contributed to overall growth in revenues. In 2014, an \$84.0 million impairment loss on the carrying value of the HMS goodwill was recognized.

Wireline Operations

Components of Operating Income

Percentage

Three Months Ended September 30, (Dollars in thousands)	2015	2014	Change	Change
Service revenues				
Residential	\$75,508	\$ 73,901	\$ 1,607	2%
Commercial	55,039	57,179	(2,140)	(4)%
Wholesale	44,032	46,570	(2,538)	(5)%
Total service revenues	174,579	177,650	(3,071)	(2)%
Equipment and product sales	477	425	52	12%
Total operating revenues	175,056	178,075	(3,019)	(2)%
Cost of services (excluding Depreciation, amortization and accretion reported below)	63,696	64,072	(376)	(1)%
Cost of equipment and products	515	829	(314)	(38)%
Selling, general and administrative	50,062	46,627	3,435	7%
Depreciation, amortization and accretion	41,228	41,358	(130)	-
(Gain) loss on asset disposals, net	1,845	743	1,102	>100%
(Gain) loss on sale of business and other exit costs, net	(105)	(2,201)	2,096	95%
Total operating expenses	157,241	151,428	5,813	4%
Total operating income	\$17,815	\$ 26,647	\$ (8,832)	(33)%

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Residential revenues increased in 2015 as growth in data and IPTV more than offset the decline in legacy voice services. IPTV average connections grew 48% increasing revenues \$2.3 million, while legacy voice connections declined by 3% decreasing revenues by \$1.1 million. A 3% increase in average revenue per residential connection increased revenues \$1.2 million.

Commercial revenues decreased in 2015 as declining legacy voice and data connections reduced revenues \$3.4 million, while 7% growth in average managedIP connections increased commercial revenues \$1.3 million.

Cost of services decreased in 2015 due primarily to \$3.1 million in reduced costs of provisioning circuits, purchasing unbundled network elements and providing long-distance services, offset by \$1.8 million in increased charges related to the growth in IPTV.

Selling, general and administrative expense increased in 2015 due to an increase in Federal Universal Service Fund contribution expense. Increases in employee related expenses, bad debts and property taxes made up the majority of the remaining increase.

The divestiture of certain wireline companies resulted in a Gain on sale of business and other exit costs, net in 2015 and 2014.

Cable Operations

Components of Operating Income (Loss)

Three Months Ended September 30, (Dollars in thousands)	Percentage			
	2015	2014	Change	Change
Service revenues				
Residential	\$34,888	\$ 22,921	\$ 11,967	52%
Commercial	8,853	5,598	3,255	58%
Total service revenues	43,741	28,519	15,222	53%
Equipment and product sales	119	—	119	N/M
Total operating revenues	43,860	28,519	15,341	54%
Cost of services (excluding Depreciation, amortization and accretion reported below)	19,545	12,651	6,894	54%
Cost of equipment and products	25	—	25	N/M
Selling, general and administrative	14,346	9,948	4,398	44%
Depreciation, amortization and accretion	8,530	6,171	2,359	38%
(Gain) loss on asset disposals, net	425	626	(201)	(32)%
Total operating expenses	42,871	29,396	13,475	46%
Total operating income (loss)	\$989	\$ (877)	\$ 1,866	>100%

N/M - Not Meaningful

Changes in operating revenues and operating expenses in 2015 are due primarily to acquisitions. Acquisitions contributed \$14.2 million to operating revenues. The remaining increase is due primarily to an increase in residential connections. Acquisitions contributed \$11.5 million to operating expenses. The remaining increase is due to higher advertising, plant maintenance and programming content costs.

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HMS Operations

Components of Operating Income (Loss)

Three Months Ended September 30, (Dollars in thousands)	Percentage			
	2015	2014	Change	Change
Service revenues	\$30,428	\$ 27,806	\$ 2,622	9%
Equipment and product sales	51,214	39,737	11,477	29%
Total operating revenues	81,642	67,543	14,099	21%
Cost of services (excluding Depreciation, amortization and accretion reported below)	21,163	19,442	1,721	9%
Cost of equipment and products	43,081	33,819	9,262	27%
Selling, general and administrative	12,446	12,724	(278)	(2)%
Depreciation, amortization and accretion	6,790	6,726	64	1%
Loss on impairment of assets	—	84,000	(84,000)	N/M
(Gain) loss on asset disposals, net	22	(2)	24	>100%
Total operating expenses	83,502	156,709	(73,207)	(47)%
Total operating income (loss)	\$(1,860)	\$ (89,166)	\$ 87,306	98%

N/M - Not Meaningful

Growth in recurring services and increases in professional services and maintenance resulted in an increase in Service revenues in 2015. Equipment and product sales revenues from sales of IT infrastructure hardware solutions increased in 2015 due to higher spending by existing customers. There was a corresponding increase in Cost of equipment and products and Cost of services needed to support revenue growth.

As a result of interim testing performed during the third quarter of 2014, TDS determined the carrying value of the HMS goodwill exceeded the implied fair value of goodwill. As a result, an \$84.0 million impairment loss was recognized.

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RECENT ACCOUNTING PRONOUNCEMENTS

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

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

TDS operates a capital- and marketing-intensive business. TDS utilizes cash on hand, cash from operating activities, cash proceeds from divestitures and dispositions of investments, short-term credit facilities and long-term debt financing to fund its acquisitions (including 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 table below and the following discussion summarize TDS' cash flow activities for the nine months ended September 30, 2015 and 2014.

	2015	2014
(Dollars in thousands)		
Cash flows from (used in):		
Operating activities	\$726,918	\$496,211
Investing activities	(513,712)	(670,840)
Financing activities	180,318	(82,318)
Net increase (decrease) in cash and cash equivalents	\$393,524	\$(256,947)

Cash Flows from Operating Activities

An increase in cash flows from operating activities was due primarily to improved net income and working capital factors. Future cash flows from operating activities may be impacted by distributions from investments in unconsolidated entities. Distributions from unconsolidated entities in 2015 and 2014 were \$45.0 million and \$74.9 million, respectively. U.S. Cellular holds a 5.5% ownership interest in the LA Partnership. U.S. Cellular has been informed by the general partner of the LA Partnership that, in connection with the acquisition of a spectrum license covering the LA Partnership's market in FCC Auction 97, the LA Partnership will not make a cash distribution in 2015. Notwithstanding the lack of a cash distribution, U.S. Cellular will be obligated to make tax payments on its share of any taxable income reported by the LA Partnership in 2015 and beyond. U.S. Cellular currently expects that it might receive a cash distribution in the latter half of 2016, although the amount of any such distribution is uncertain. During the nine months ended September 30, 2014 and the twelve months ended December 31, 2014, U.S. Cellular received cash distributions of \$35.8 million and \$60.5 million, respectively, from the LA Partnership.

TDS' future federal income tax liabilities associated with the benefits realized in prior periods from bonus depreciation are accrued as a component of Net deferred income tax liability (noncurrent) in the Consolidated Balance Sheet. Currently, there is no federal bonus depreciation deduction allowed for 2015 and future periods. Therefore, depending on TDS' future pretax income levels, TDS' federal income tax payments could increase in 2015 and remain at a higher level for several years as the amount of TDS' federal tax depreciation deductions decrease. This expectation of potentially higher federal income tax payments in 2015 and subsequent years assumes that federal bonus depreciation provisions are not enacted in 2015 or future periods. To the extent further federal bonus depreciation provisions are enacted, this expectation would change and may have an impact on the overall level of operating cash flows in the future.

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Cash Flows from Investing Activities

TDS makes substantial investments to acquire wireless licenses and properties and to construct and upgrade telecommunications 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.

Cash used for additions to property, plant and equipment totaled \$558.1 million in 2015 and \$553.7 million in 2014, and is reported in the Consolidated Statement of Cash Flows.

Capital expenditures (i.e., additions to property, plant and equipment and system development expenditures), which include the effects of accruals and capitalized interest, in the nine months ended September 30, 2015 and 2014 were as follows:

Capital expenditures	2015	2014
(Dollars in thousands)		
U.S. Cellular	\$334,942	\$375,960
TDS Telecom		
Wireline	90,517	84,511
Cable	36,575	20,998
HMS	19,341	23,179
TDS Telecom total	146,433	128,688
Corporate and Other	5,570	3,856
Total	\$486,945	\$508,504

See Capital Expenditures below for additional information on Capital expenditures.

During 2015, a \$278.3 million payment was made by Advantage Spectrum L.P. to the FCC for licenses for which it was the provisional winning bidder. See Note 6 — Acquisitions, Divestitures and Exchanges and Note 10 — Variable Interest Entities in the Notes to Consolidated Financial Statements for additional information.

Cash received from Divestitures and Exchanges, which is a component of cash flows from investing activities in the Consolidated Statement of Cash Flows, is shown below.

	2015	2014
(Dollars in thousands)		
U.S. Cellular licenses	\$145,000	\$91,789
U.S. Cellular businesses (1)	169,352	52,012
TDS Telecom	10,400	7,568

wireline
businesses

Other	20	—
Total	\$324,772	\$151,369

(1) Amount includes cash proceeds received from the sale of 359 towers and reimbursements related to the Divestiture Transaction.

See Note 6— Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to these divestitures.

Cash Flows from Financing Activities

Cash flows from financing activities include proceeds from and repayments of long-term debt, dividends to shareholders, distributions to noncontrolling interests, cash used to repurchase Common Shares and cash proceeds from reissuance of Common Shares pursuant to stock-based compensation plans. In July 2015, U.S. Cellular borrowed \$225 million on its Term Loan. See Financing section below for additional discussion.

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Adjusted Free Cash Flow

The following table presents Adjusted free cash flow. Adjusted free cash flow is defined as Cash flows from operating activities (which includes cash outflows related to the Sprint decommissioning), as adjusted for cash proceeds from the Sprint Cost Reimbursement (which are included in Cash flows from investing activities in the Consolidated Statement of Cash Flows), less Cash used for additions to property, plant and equipment. Adjusted free cash flow is a non-GAAP financial measure which TDS believes may be useful to investors and other users of its financial information in evaluating the amount of cash generated by business operations (including cash proceeds from the Sprint Cost Reimbursement), after Cash used for additions to property, plant and equipment.

Nine Months Ended September 30, (Dollars in thousands)	2015	2014
Cash flows from operating activities	\$726,918	\$496,211
Add: Sprint Cost Reimbursement (1)	27,596	52,012
Less: Cash used for additions to property, plant and equipment	558,112	553,718
Adjusted free cash flow	\$196,402	\$(5,495)

See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated
(1) Financial Statements for additional information related to the Sprint Cost Reimbursement.

See Cash Flows from Operating Activities and Cash Flows from Investing Activities for additional information related to the components of Adjusted free cash flow.

LIQUIDITY

TDS believes that existing cash and investment balances, funds available under its revolving credit facilities, and expected cash flows from operating and investing activities provide substantial liquidity and financial flexibility for TDS to meet its normal day-to-day operating needs and debt service requirements. However, these resources may not be adequate to fund all future expenditures that the companies could potentially elect to make such as acquisitions of spectrum licenses in FCC auctions and other acquisition, construction and development programs. It may be necessary from time to time to increase the size of the existing revolving credit facilities, to put in place new credit facilities, or to obtain other forms of financing in order to fund these potential expenditures. To the extent that sufficient funds are not available to TDS or its subsidiaries on terms or at prices acceptable to TDS, it could require TDS to reduce its acquisition, capital expenditure, business development and share repurchase programs.

TDS cannot provide assurances that circumstances that could have a material adverse effect on its liquidity or capital resources will not occur. Economic conditions, changes in financial markets, TDS financial performance and/or prospects or other factors could restrict TDS' liquidity and availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its acquisition, capital expenditure, business development and share repurchase programs. Such reductions could have a material adverse effect on TDS' business, financial condition or

results of operations.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments with original maturities of three months or less. The primary objective of TDS' Cash and cash equivalents investment activities is to preserve principal. At September 30, 2015, the majority of TDS' Cash and cash equivalents was held in bank deposit accounts and in money market funds that invest exclusively in U.S. Treasury Notes or in repurchase agreements fully collateralized by such 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.

Financing

As of September 30, 2015, TDS and U.S. Cellular's unused capacity under their revolving credit facilities was \$399.4 million and \$282.5 million, respectively. These credit facilities mature in December 2017. In July 2015, U.S. Cellular borrowed \$225 million on the Term Loan. TDS and U.S. Cellular believe they were in compliance with all of the financial covenants and requirements set forth in their revolving credit facilities and Term Loan as of September 30, 2015.

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

The proceeds from any of the aforementioned financing facilities are available for general corporate purposes, including spectrum purchases and capital expenditures.

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The long-term debt payments due for the remainder of 2015 and the next four years represent less than 3% of TDS' total long-term debt obligation.

Capital Expenditures

U.S. Cellular's capital expenditures for 2015 are expected to be approximately \$600 million. These expenditures are expected to be for the following general purposes:

- Expand and enhance network coverage, including providing additional capacity to accommodate increased network usage, principally data usage, by current customers;
- Deploy 4G LTE technology in certain markets;
- Expand and enhance the retail store network; and
- Develop and enhance office systems.

TDS Telecom's capital expenditures for 2015 are expected to be \$220 million. These expenditures are expected to be for the following general purposes:

- Maintain and enhance existing infrastructure at Wireline, HMS and Cable;
- Network upgrades and fiber expansion in Wireline and Cable markets;
- Success-based spending to sustain managedIP, IPTV, HMS and Cable growth; and
- Expansion of HMS data center facilities.

TDS plans to finance its capital expenditures program for 2015 using primarily Cash flows from operating activities and, as necessary, existing cash balances and borrowings under its revolving credit agreements and/or other long-term debt.

Acquisitions, Divestitures and Exchanges

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 investment. As part of this strategy, TDS reviews attractive opportunities to acquire additional wireless operating markets and wireless spectrum; and telecommunications, cable, HMS or other possible businesses. In addition, TDS may seek to divest outright or include in exchanges for other interests those interests that are not strategic to its long-term success. As a result, TDS may be engaged from time to time in negotiations 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. See Note 6 — Acquisitions, Divestitures and Exchanges in the Notes to Consolidated Financial Statements for additional information related to significant transactions, including expected pre-tax cash proceeds from such transactions in 2015.

Variable Interest Entities

TDS consolidates certain entities because they are "variable interest entities" under accounting principles generally accepted in the United States of America ("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.

U.S. Cellular currently provides 4G LTE service in conjunction with King Street Wireless L.P. Aquinas Wireless L.P. has not yet developed long-term business plans. Advantage Spectrum L.P. will develop its long-term business plans after it is granted licenses by the FCC. These licenses have not yet been granted.

Common Share Repurchase Programs

In the past year, 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. For additional information related to the current TDS and U.S. Cellular repurchase authorizations and repurchases made during 2015 and 2014, see Note 12 — Common Share Repurchases in the Notes to Consolidated Financial Statements and Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

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Contractual and Other Obligations

There were no material changes outside the ordinary course of business between December 31, 2014 and September 30, 2015 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, 2014, except for U.S. Cellular's borrowing of \$225 million under the Term Loan in July 2015. See Note 9 — Debt in the Notes to Consolidated Financial Statements for additional information.

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, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

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APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

TDS prepares its consolidated financial statements in accordance with GAAP. TDS' significant accounting policies are discussed in detail in Note 1 — Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements and TDS' Application of Critical Accounting Policies and Estimates is discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are included in TDS' Form 10-K for the year ended December 31, 2014. There were no material changes to TDS' application of critical accounting policies and estimates during the nine months ended September 30, 2015.

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PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

SAFE HARBOR CAUTIONARY STATEMENT

This Form 10-Q, including exhibits, contains statements that are not based on historical facts and represent forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, that address activities, events or developments that TDS intends, expects, projects, believes, estimates, plans or anticipates will or may occur in the future are forward-looking statements. The words “believes,” “anticipates,” “estimates,” “expects,” “plans,” “intends,” “projects” and similar expressions intended to identify these forward-looking statements, but are not the exclusive means of identifying them. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include those set forth below, as more fully described under “Risk Factors” in TDS’ Form 10-K for the year ended December 31, 2014. However, such factors are not necessarily all of the important factors that could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the forward-looking statements contained in this document. Other unknown or unpredictable factors also could have material adverse effects on future results, performance or achievements. TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. You should carefully consider the Risk Factors in TDS’ Form 10-K for the year ended December 31, 2014, the following factors and other information contained in, or incorporated by reference into, this Form 10-Q to understand the material risks relating to TDS’ business.

- Intense competition in the markets in which TDS operates could adversely affect TDS’ revenues or increase its costs to compete.
- A failure by TDS to successfully execute its business strategy (including planned acquisitions, divestitures and exchanges) or allocate resources or capital could have an adverse effect on TDS’ business, financial condition or results of operations.
- TDS offers customers the option to purchase certain devices under installment contracts, which creates certain risks and uncertainties which could have an adverse impact on TDS’ financial condition or results of operations.
- Changes in roaming practices or other factors could cause TDS’ roaming revenues to decline from current levels and/or impact TDS’ ability to service its customers in geographic areas where TDS does not have its own network, which could have an adverse effect on TDS’ business, financial condition or results of operations.
- A failure by TDS to obtain access to adequate radio spectrum to meet current or anticipated future needs and/or to accurately predict future needs for radio spectrum could have an adverse effect on TDS’ business, financial condition or results of operations.
- To the extent conducted by the Federal Communications Commission (“FCC”), TDS is likely to participate in FCC auctions of additional spectrum in the future as an applicant or as a noncontrolling partner in another auction applicant and, during certain periods, will be subject to the FCC’s anti-collusion rules, which could have an adverse effect on TDS.
- Changes in the regulatory environment or a failure by TDS to timely or fully comply with any applicable regulatory requirements could adversely affect TDS’ business, financial condition or results of operations.
- An inability to attract people of outstanding potential, to develop their potential through education and assignments, and to retain them by keeping them engaged, challenged and properly rewarded could have an

adverse effect on TDS' business, financial condition or results of operations.

- TDS' assets are concentrated primarily in the U.S. telecommunications industry. As a result, its results of operations may fluctuate based on factors related primarily to conditions in this industry.
- TDS' lower scale relative to larger competitors could adversely affect its business, financial condition or results of operations.
- Changes in various business factors could have an adverse effect on TDS' business, financial condition or results of operations.
- Advances or changes in technology could render certain technologies used by TDS obsolete, could put TDS at a competitive disadvantage, could reduce TDS' revenues or could increase its costs of doing business.
- Complexities associated with deploying new technologies present substantial risk.

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

- Claims of infringement of intellectual property and proprietary rights of others, primarily involving patent infringement claims, could prevent TDS from using necessary technology to provide products or services or subject TDS to expensive intellectual property litigation or monetary penalties, which could have an adverse effect on TDS' business, financial condition or results of operations.

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- Certain matters, such as control by the TDS Voting Trust and provisions in the TDS Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of TDS.
- Any of the foregoing events or other events could cause revenues, earnings, capital expenditures and/or any other financial or statistical information to vary from TDS' forward-looking estimates by a material amount.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

Refer to the disclosure under Market Risk in TDS' Form 10-K for the year ended December 31, 2014 for additional information, including information regarding required principal payments and the weighted average interest rates related to TDS' Long-term debt. There have been no material changes to such information since December 31, 2014, except for U.S. Cellular's borrowing of \$225 million under the Term Loan in July 2015.

See Note 2 — Fair Value Measurements in the Notes to Consolidated Financial Statements for additional information related to the fair value of TDS' Long-term debt as of September 30, 2015.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

TDS maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and forms, and that such information is accumulated and communicated to TDS' management, including its principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rule 13a-15(b), TDS carried out an evaluation, under the supervision and with the participation of management, including its principal executive officer and principal financial officer, of the effectiveness of the design and operation of TDS' disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, TDS' principal executive officer and principal financial officer concluded that TDS' disclosure controls and procedures were effective as of September 30, 2015, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

Internal controls over financial reporting continue to be updated as necessary to accommodate modifications to our business processes and accounting procedures. As previously disclosed in TDS' Form 10-K for the year ended December 31, 2014, U.S. Cellular entered into certain arrangements in the latter part of the fourth quarter of 2014 pursuant to which U.S. Cellular now outsources certain support functions for its Billing and Operational Support System ("B/OSS") to a third-party vendor. In accordance with this change and effective January 1, 2015, U.S. Cellular is placing reliance on certain third-party controls with respect to the B/OSS environment. There have been no other changes in internal controls over financial reporting that have occurred during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, TDS' internal control over financial

reporting.

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Part II. Other Information

Item 1. Legal Proceedings.

Refer to the disclosure under Legal Proceedings in TDS' Form 10-K for the year ended December 31, 2014. There have been no material changes to such information since December 31, 2014.

Item 1A. Risk Factors.

In addition to the information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in TDS' Annual Report on Form 10-K for the year ended December 31, 2014, which could materially affect TDS' business, financial condition or future results. The risks described in this Form 10-Q and the Form 10-K for the year ended December 31, 2014, may not be the only risks that could affect TDS. Additional unidentified or unrecognized risks and uncertainties could materially adversely affect TDS' business, financial condition and/or operating results. Subject to the foregoing, TDS has not identified for disclosure any material changes to the risk factors as previously disclosed in TDS' Annual Report on Form 10-K for the year ended December 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On August 2, 2013, the Board of Directors of TDS authorized a \$250 million stock repurchase program for TDS Common Shares. Depending on market conditions, such shares may be repurchased in compliance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), pursuant to Rule 10b5-1 under the Exchange Act, or pursuant to accelerated share repurchase arrangements, prepaid share repurchases, private transactions or as otherwise authorized. This authorization does not have an expiration date.

The maximum dollar value of shares that may yet be purchased under the program was \$201.2 million as of September 30, 2015. There were no purchases made by or on behalf of TDS, and no open market purchases made by any "affiliated purchaser" (as defined by the SEC) of TDS, of TDS Common Shares during the quarter covered by this Form 10-Q.

The following is additional information with respect to the Common Share authorization:

- i. The date the program was announced was August 2, 2013 by Form 8-K.
- ii. The amount approved was up to \$250 million in aggregate purchase price of TDS Common Shares.
- iii. The program does not have an expiration date.
- iv. The authorization did not expire during the third quarter of 2015.
- v. TDS did not determine to terminate the foregoing Common Share repurchase program, or cease making further purchases thereunder, during the third quarter of 2015.

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Item 5. Other Information.

- a. The following information is being provided to update prior disclosures made pursuant to the requirements of Form 8-K, Item 2.03 — Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of a Registrant.

Neither TDS nor U.S. Cellular borrowed or repaid any cash amounts under their revolving credit facilities in the third quarter of 2015 or through the filing date of this Form 10-Q, and had no cash borrowings outstanding under their revolving credit facilities as of September 30, 2015 or as of the filing date of this Form 10-Q.

A description of TDS' revolving credit facility is included in TDS' Current Report on Form 8-K dated December 17, 2010, as such description is amended by Item 1.01 in TDS' Current Report on Form 8-K dated July 24, 2014, and is incorporated by reference herein.

A description of U.S. Cellular's revolving credit facility is included in U.S. Cellular's Current Report on Form 8-K dated December 17, 2010, as such description is amended by Item 1.01 in U.S. Cellular's Current Report on Form 8-K dated July 24, 2014, and is incorporated by reference herein.

- b. The following information is being provide pursuant to Item 407(c)(3) of Regulation S-K:

The following briefly describes amendments to TDS' Bylaws effective August 19, 2015 that made changes to TDS' shareholder nomination procedures:

1. Section 1.13 was amended to change the time periods during which a shareholder may notify TDS that it intends to nominate a person for election as a director at an annual meeting of shareholders. As amended, notice of nominations by shareholders intended to be presented at the 2016 Annual Meeting must now be received by TDS at its principal executive offices not earlier than December 19, 2015 (previously January 22, 2016) and not later than the close of business on January 18, 2016 (previously February 19, 2016) for consideration at the 2016 Annual Meeting. These dates are 120 calendar days and 90 calendar days, respectively, before the anniversary date of the date of filing with the SEC of the 2015 Proxy Statement on April 17, 2015 (previously before the anniversary date of the date of the 2015 Annual Meeting of May 21, 2015). However, if the date of the 2016 Annual Meeting is changed by more than 30 calendar days before or after May 21, 2016 (the one year anniversary date of the 2015 Annual Meeting), different provisions will apply as set forth in the TDS Bylaws.
2. Section 1.14 was amended to require any shareholder who submits a notice of nomination of a person for election as a director to provide information relating to whether that person has received, is receiving or will receive, directly or indirectly, any compensation or other interest or benefit from any third party other than TDS, including from the nominating shareholder, in connection with such person's nomination or service as a director of TDS if elected.

3. Section 1.15 was amended to provide that the Questionnaire to be completed by a director candidate would also include a question relating to the matters in the preceding paragraph, and was also amended to provide that TDS may make arrangements for director candidates to be interviewed by directors of TDS or other persons designated by the Corporate Governance and Nominating Committee.

The foregoing description is qualified by reference to the copy of the amended Bylaws attached as Exhibit 3.1 to TDS' Current Report on Form 8-K dated August 19, 2015 and filed August 25, 2015.

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Item 6. Exhibits.

Exhibit 3.1— Restated Bylaws of TDS effective August 19, 2015, are hereby incorporated by reference to Exhibit 3.1 to TDS' Current Report on Form 8-K dated August 19, 2015.

Exhibit 4.1 — Restated Bylaws of TDS are hereby incorporated by reference to Exhibit 3.1 above.

Exhibit 4.2 — Term Loan Credit Agreement dated as of January 21, 2015 between U.S. Cellular and CoBank ACB, including exhibits, is hereby incorporated by reference to Exhibit 4.1 to U.S. Cellular's Current Report on Form 8-K dated January 21, 2015.

Exhibit 10.1 — Form of TDS 2011 Long-Term Incentive Plan Stock Option Award Agreement, is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K dated May 1, 2015.

Exhibit 10.2 — Form of TDS 2011 Long-Term Incentive Plan Stock Restricted Stock Unit Award Agreement, is hereby incorporated by reference to Exhibit 10.2 to TDS' Current Report on Form 8-K dated May 1, 2015.

Exhibit 10.3 — Form of U.S. Cellular 2013 Long-Term Incentive Plan Stock Option Award Agreement for the President and Chief Executive Officer of U.S. Cellular, is hereby incorporated by reference to Exhibit 10.3 to U.S. Cellular's Current Report on Form 8-K dated February 26, 2015.

Exhibit 10.4 — Form of U.S. Cellular 2013 Long-Term Incentive Plan Stock Restricted Stock Unit Award Agreement for the President and Chief Executive Officer of U.S. Cellular, is hereby incorporated by reference to Exhibit 10.4 to U.S. Cellular's Current Report on Form 8-K dated February 26, 2015.

Exhibit 10.5 — TDS 2015 Officer Bonus Program, is hereby incorporated by reference to Exhibit 10.1 to TDS' Current Report on Form 8-K dated August 7, 2015.

Exhibit 11 — Statement regarding computation of per share earnings is included herein as Note 5 — Earnings Per Share in the Notes to Consolidated Financial Statements.

Exhibit 12 — Statement regarding computation of ratio of earnings to fixed charges.

Exhibit 31.1 — Principal executive officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 31.2 — Principal financial officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 32.1 — Principal executive officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 32.2 — Principal financial officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 101.INS — XBRL Instance Document

Exhibit 101.SCH — XBRL Taxonomy Extension Schema Document

Exhibit 101.PRE — XBRL Taxonomy Presentation Linkbase Document

Exhibit 101.CAL — XBRL Taxonomy Calculation Linkbase Document

Exhibit 101.LAB — XBRL Taxonomy Label Linkbase Document

Exhibit 101.DEF — XBRL Taxonomy Extension Definition Linkbase Document

The foregoing exhibits include only the exhibits that relate specifically to this Form 10-Q or that supplement the exhibits identified in TDS' Form 10-K for the year ended December 31, 2014. Reference is made to TDS' Form 10-K for the year ended December 31, 2014 for a complete list of exhibits, which are incorporated herein except to the extent supplemented or superseded above.

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SIGNATURES

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

TELEPHONE AND DATA SYSTEMS, INC.
(Registrant)

Date: October 30, 2015 /s/ LeRoy T. Carlson, Jr.
LeRoy T. Carlson, Jr.,

President and Chief Executive Officer

(principal executive officer)

Date: October 30, 2015 /s/ Douglas D. Shuma
Douglas D. Shuma,

Senior Vice President - Finance and Chief Accounting Officer

(principal financial officer and principal accounting officer)

Date: October 30, 2015 /s/ Douglas W. Chambers
Douglas W. Chambers,

Vice President and Controller