

LIBOR rate at December 31, 2003). Interest and principal are due the last day of the borrowing period, as selected by the borrower, of either seven days or one, two, three or six months; any borrowings made under the facility are short-term in nature and automatically renew until they are repaid. U.S. Cellular pays annual facility and administrative fees in addition to interest on any borrowings; these fees are recorded as interest expense. As of December 31, 2003, U.S. Cellular had \$699.8 million available, net of outstanding letters of credit of \$0.2 million. In February 2004, U.S. Cellular repaid the entire \$105 million Intercompany Note, plus accrued interest of \$1 million, to TDS using cash borrowed under the revolving credit facility.

At December 31, 2002, and up until December 23, 2003, U.S. Cellular had a \$500 million revolving credit facility with a group of banks. This credit facility was terminated on December 23, 2003 in connection with the amendment of U.S. Cellular's \$325 million credit facility to \$700 million, discussed above. Borrowings under this facility accrued interest at the LIBOR rate plus 19.5 basis points. Other terms of this facility were similar to those in the recently amended facility discussed above.

U.S. Cellular is generating cash from its operations and anticipates financing the 2004 obligations listed above with internally generated cash and with borrowings under its revolving credit facilities, as the timing of such expenditures warrants. U.S. Cellular had \$9.8 million of cash and cash equivalents at December 31, 2003.

The continued availability of the revolving credit facility requires U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and to represent certain matters at the time of each borrowing.

The restatements of the financial statements for the years ended December 31, 2003 and 2002 resulted in defaults under the revolving credit agreement between U.S. Cellular and certain lenders. U.S. Cellular has not failed to make nor expects to fail to make any scheduled payment of principal or interest under such revolving credit agreement. U.S. Cellular has received waivers from the lenders under which the lenders agreed to waive any defaults that may have occurred as a result of the restatements.

U.S. Cellular's interest costs related to the revolving credit facility would increase if its credit rating goes down, which would increase its cost of financing, but the facility would not cease to be available solely as a result of a decline in its credit rating. A downgrade in U.S. Cellular's credit rating could adversely affect its ability to renew existing, or obtain access to new, credit facilities in the future.

Marketable Equity Securities and Forward Contracts

U.S. Cellular and its subsidiaries hold a substantial amount of marketable equity securities that are publicly traded and can have volatile share prices. U.S. Cellular and its subsidiaries do not make direct investments in publicly traded companies and all of these interests were acquired as a result of sales, trades or reorganizations of other assets. The investment in Vodafone resulted from certain sales or trades of non-strategic cellular investments to or settlements with AirTouch Communications in exchange for stock of AirTouch, which was then acquired by Vodafone for American Depositary Receipts representing Vodafone stock. The investment in Rural Cellular Corporation is the

result of a consolidation of several cellular partnerships in which U.S. Cellular subsidiaries held interests in Rural Cellular Corporation, and the distribution of Rural Cellular Corporation stock in exchange for these interests. U.S. Cellular has not disposed of the investments because their low tax basis would trigger a substantial taxable gain upon disposal.

U.S. Cellular and its subsidiaries have entered into a number of variable prepaid forward contracts ("forward contracts") related to the marketable equity securities that they hold. The forward contracts mature in May 2007 and, at U.S. Cellular's option, may be settled in shares of the respective security or cash. U.S. Cellular has provided guarantees to the lenders which provide assurance to the lenders that all principal and interest amounts are paid upon settlement of the contracts by its subsidiary. If shares are delivered in the settlement of the forward contract, U.S. Cellular would incur a current tax liability at the time of delivery based on the difference between the tax basis of the marketable equity securities delivered and the net amount realized through maturity. Deferred taxes have been provided for the difference between the financial reporting basis and the income tax basis of the marketable equity securities and are included in deferred tax liabilities on the balance sheet. As of December 31, 2003, such deferred tax liabilities totaled \$86.3 million.

The restatements of the financial statements for the years ended December 31, 2003 and 2002 resulted in defaults under certain forward contracts between a subsidiary of U.S. Cellular and a counterparty. U.S. Cellular has not failed to make nor expects to fail to make any scheduled payment of principal or interest under such forward contracts. U.S. Cellular and its subsidiaries have received waivers from the counterparty under which the counterparty agreed to waive any defaults that may have occurred as a result of the restatements.

Long-Term Financing

In August 2002, U.S. Cellular issued the \$175 million principal amount of 9% Series A Notes in conjunction with the acquisition of USCOC of Chicago. These Notes were originally issued in a private placement to the parties who sold USCOC of Chicago to U.S. Cellular and were due in August 2032. In November 2002, U.S. Cellular repurchased \$129.8 million of the 9% Series A Notes with the proceeds of its 8.75% Senior Notes issuance. In January 2003, U.S. Cellular repurchased the remaining \$45.2 million of the 9% Series A Notes with borrowings from its revolving credit facilities. As a result of these repurchases, the 9% Series A Notes have been cancelled.

In November 2002, U.S. Cellular sold \$130 million of 8.75% Senior Notes. Interest is payable quarterly. These Notes are callable by U.S. Cellular, at the principal amount plus accrued and unpaid interest, at any time on and after November 7, 2007.

In December 2003, U.S. Cellular sold \$444 million of 6.7% Senior Notes. Interest is payable semi-annually. These Notes may be redeemed, in whole or in part, at any time prior to maturity at a redemption price equal to the greater of (a) 100% of the principal amount of such notes, plus accrued but unpaid interest, or (b) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semi-annual basis at the Treasury Rate plus .30%.