

sale of non-strategic cellular and other investments, from time to time, have been used to reduce short-term debt. In addition, TDS has taken advantage of opportunities to reduce short-term debt with proceeds from the sale of long-term debt securities, including sales of debt securities by subsidiaries.

In 2003, TDS redeemed and cancelled the \$300 million of Trust Originated Preferred Securities. The redemption was financed with cash on hand. U.S. Cellular repaid the remaining principal amount outstanding on its 9% Series A Notes with \$40.7 million in cash, which was financed using U.S. Cellular's revolving credit facilities. The 9% Series A Notes are now retired. On December 8, 2003, U.S. Cellular received \$432.9 million net proceeds from the issuance of its \$444.0 million of 6.7% Notes due December 2033. These proceeds were subsequently used to repay all outstanding borrowings under the revolving credit facility entered into in 1997.

In 2002, TDS received \$1,631.8 million from forward contracts related to its investments in Deutsche Telekom, Vodafone and VeriSign. A portion of the proceeds from the Deutsche Telekom and VeriSign forward contracts was used by TDS to pay down TDS's short-term debt. U.S. Cellular received \$159.9 million from forward contracts related to its Vodafone investment and used the proceeds to pay down short-term debt.

In November 2002, U.S. Cellular issued \$130 million face value of 8.75% Senior Notes due in November 2032. The net proceeds of \$129.8 million, after the reimbursement of expenses, were used to repurchase a portion of the \$175 million 9% Series A Notes that U.S. Cellular issued in connection with the acquisition of the Chicago market. TDS received \$484.2 million from the sale of \$500 million 40-year 7.6% Series A Notes in 2001. The proceeds were used to reduce short-term debt.

TDS retired a total of \$70.5 million, \$51.0 million and \$65.5 million of medium-term notes at par value in 2003, 2002 and 2001, respectively. The reduction of short-term debt required cash totaling \$461.7 million in 2003. The increase in short-term debt provided \$196.5 million in 2002. The reduction of short-term debt required \$249.5 million in 2001. Dividends paid on Common and Preferred Shares, excluding dividends reinvested, totaled \$36.2 million in 2003, \$34.4 million in 2002 and \$32.1 million in 2001.

The Board of Directors of TDS has authorized the repurchase of TDS Common Shares. During 2003, TDS repurchased 1,961,000 of its Common Shares, for an aggregate purchase price of \$92.4 million, or an average of \$47.10 per share including commissions. No shares were repurchased in 2002. During 2001, TDS repurchased 325,000 of its Common Shares, for an aggregate purchase price of \$30.3 million, or an average of \$93.47 per share including commissions. Cash required for the repurchase of the Common Shares totaled \$86.8 million in 2003 and \$39.4 million in 2001 reflecting differences in the number of shares acquired and timing differences in the cash disbursements.

The Board of Directors of U.S. Cellular from time to time has authorized the repurchase of U.S. Cellular Common Shares not owned by TDS. In 2000, the Board of Directors of U.S. Cellular authorized the repurchase of up to 4.2 million of its Common Shares through three separate 1.4 million share programs. The final 1.4 million share authorization expired in December 2003. The Board of Directors of U.S. Cellular has also authorized the repurchase of a limited amount of U.S. Cellular Common Shares on a quarterly basis, primarily for use in the employee benefit plans. U.S. Cellular did not purchase any of its Common Shares in 2003 and 2002. During 2001, U.S. Cellular repurchased 643,000 of its Common Shares for an aggregate purchase price of \$29.9 million, or an average of \$46.45 per share. Cash required for the repurchase of U.S. Cellular Common Shares totaled \$40.9 million in 2001 including \$11.0 million paid in January 2001 related to December 2000 Common Share repurchases.

In 2001, U.S. Cellular paid \$32.0 million in cash and issued 644,000 U.S. Cellular Common Shares to satisfy the retirement of \$126.2 million face value (\$55.1 million carrying value) of 6% zero coupon convertible debentures by the holders. U.S. Cellular's 6% zero coupon convertible debentures, also known as Liquid Yield Option Notes, are convertible, at the option of the holders, at any time prior to maturity, redemption or purchase, into U.S. Cellular Common Shares at a conversion rate of 9.475 U.S. Cellular Common Shares per \$1,000 Note. Upon notice of conversion, U.S. Cellular has the option to deliver to holders either U.S. Cellular Common Shares or cash equal to the market value of such Common Shares. U.S. Cellular has opportunistically repurchased Liquid Yield Option Notes in private transactions and in open-market transactions.

LIQUIDITY AND CAPITAL RESOURCES

Management believes that internal cash flow, existing cash and cash equivalents and funds available from line of credit arrangements provide sufficient financial resources to finance its near-term capital, business development and expansion expenditures. TDS and its subsidiaries have access to public and private capital markets to help meet their long-term financing needs. TDS and its subsidiaries anticipate accessing public and private capital markets to issue debt and equity securities only when and if capital requirements, financial market conditions and other factors warrant.

However, the availability of external financial resources is dependent on economic events, business developments, technological changes, financial conditions or other factors. If at any time financing is not available on terms acceptable to TDS, TDS might be required to reduce its business development and capital expenditure plans, which could have a materially adverse effect on its business and financial condition. TDS does not believe that any circumstances that could materially adversely affect TDS's liquidity or its capital resources are currently reasonably likely to occur, but it cannot provide assurances that such circumstances will not occur or

that they will not occur rapidly. Economic downturns, changes in financial markets or other factors could rapidly change the availability of TDS's liquidity and capital resources. Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development and acquisition programs.

U.S. Cellular and TDS Telecom are generating substantial internal funds from operations. Cash flow from continuing operating activities totaled \$920.4 million in 2003, \$793.6 million in 2002 and \$545.8 million in 2001. Cash flow from continuing operating activities in 2001 was reduced by about \$147.5 million for income taxes paid (net of credits utilized) on the taxable gain from the merger of Deutsche Telekom and VoiceStream.

TDS and its subsidiaries had Cash and cash equivalents totaling \$937.7 million at December 31, 2003. TDS anticipates using the cash for general corporate purposes.

Revolving Credit Facilities

As discussed below, TDS and its subsidiaries had \$1,296.6 million of revolving credit facilities available for general corporate purposes as well as an additional \$75.0 million of bank lines of credit as of December 31, 2003.

TDS had a \$600 million revolving credit facility for general corporate purposes at December 31, 2003. TDS had \$3.2 million of letters of credit outstanding against the revolving credit agreement leaving \$596.8 million available for use. The credit facility expires in January 2007. Borrowings bear interest at the London InterBank Offered Rate ("LIBOR") plus a contractual spread based on TDS's credit rating. The contractual spread was 30 basis points as of December 31, 2003 (for a rate of 1.42% based on the 30-day LIBOR rate at December 31, 2003).

TDS also had \$75.0 million of additional bank lines of credit for general corporate purposes at December 31, 2003, all of which were unused. These lines of credit expire in less than one year. These line of credit agreements provide for borrowings at negotiated rates up to the prime rate (4.0% at December 31, 2003).

In December 2003, U.S. Cellular increased its bank revolving line of credit originally entered into in 2002 ("2002 Revolving Credit Facility") to \$700 million from \$325 million. At December 31, 2003, this line of credit had \$699.8 million available net of outstanding letters of credit totaling \$0.2 million. The 2002 Revolving Credit Facility is to be used for general corporate purposes and expires in June 2007. This line of credit provides for borrowings with interest at the LIBOR rate plus a margin percentage, based on U.S. Cellular's credit rating, which was 55 basis points as of December 31, 2003 (for a rate of 1.67% based on the 30-day LIBOR rate at December 31, 2003).

At December 31, 2002 and up until December 23, 2003, U.S. Cellular had a \$500 million revolving credit facility. U.S. Cellular terminated its \$500 million revolving credit facility on December 23, 2003 in connection with the increase of its 2002 Revolving Credit Facility from \$325 million to \$700 million.

TDS's and U.S. Cellular's interest costs would increase if their credit rating goes down which would increase their cost of financing, but their credit facilities would not cease to be available solely as a result of a decline in their credit rating. A downgrade in TDS's or U.S. Cellular's credit rating could adversely affect their ability to renew existing, or obtain access to new, credit facilities in the future. The continued availability of the revolving credit facilities requires TDS and 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. Certain of TDS's and U.S. Cellular's credit facilities would accelerate in the event of a change in control.

The restatements of the financial statements for the years ended December 31, 2003 and 2002 resulted in defaults under the revolving credit agreements between TDS and certain lenders and under the revolving credit agreement between U.S. Cellular and certain lenders. Neither TDS nor U.S. Cellular has failed to make or expects to fail to make any scheduled payment of principal or interest under such revolving credit agreements. TDS and U.S. Cellular have received waivers from the lenders under which the lenders agreed to waive any defaults that may have occurred as a result of the restatements.

Long-term Financing

At December 31, 2003, TDS and its subsidiaries are in compliance with all covenants and other requirements set forth in long-term debt indentures. TDS does not have any rating downgrade triggers that would accelerate the maturity dates of its long-term debt. However, a downgrade in TDS's credit rating could adversely affect its ability to refinance existing, or obtain access to new, long-term debt in the future.

TDS repurchased \$5.0 million of 10% Medium-Term Notes in June 2003 at 115.75% of par value. The loss on retirement of debt totaled \$787,500 and was reported in the caption Other income (expense), net in the statements of operations. TDS redeemed \$65.5 million of Series B Medium-Term Notes with interest rates of 8%–8.4% in July 2003 at par value. There was no gain or loss on the retirement of these notes at par value. TDS wrote off to Other income (expense), net in the statements of operations, deferred expenses related to the Medium-Term Notes totaling \$0.4 million that were previously included in Other Assets and Deferred Charges on the balance sheet.

In September 2003, TDS's subsidiary trusts, TDS Capital I and TDS Capital II redeemed all of their outstanding Trust Originated Preferred Securities ("TOPrSSM"). The redemption price of both the 8.5% and 8.04% TOPrS was equal to 100% of the principal

amount, or \$25.00 per security, plus accrued and unpaid distributions. The outstanding amount of the 8.5% TOPrS redeemed was \$150 million. The outstanding amount of the 8.04% TOPrS redeemed was \$150 million. There was no gain or loss on the redemption of these securities. TDS wrote off deferred expenses related to the TOPrS totaling \$8.7 million that was previously included in Other Assets and Deferred Charges on the balance sheet to Other income (expense), net in the statements of operations.

On December 8, 2003, U.S. Cellular issued \$444.0 million in 6.7% Senior Notes due December 2033. Interest on the notes is payable semi-annually on June 15 and December 15 of each year. The \$432.9 million in proceeds were used to repay all outstanding short-term debt. U.S. Cellular may redeem the notes, 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%.

In November 2002, U.S. Cellular sold \$130 million of 8.75% Senior Notes due in November 2032. Interest is payable quarterly. The notes are callable by U.S. Cellular after five years at the principal amount plus accrued but unpaid interest. The \$129.8 million net proceeds from the sale of the notes (after reimbursement of expenses) were used to purchase a portion of the 9% Series A Notes that were issued to PrimeCo. In January 2003, U.S. Cellular repurchased the remaining \$45.2 million of 9% Series A Notes from PrimeCo related to the Chicago market acquisition. The repurchase was financed using short-term debt. Following such repurchases, all of the 9% Series A Notes were cancelled.

Marketable Equity Securities and Forward Contracts

TDS and its subsidiaries hold a substantial amount of marketable equity securities that are publicly traded and can have volatile share prices. TDS 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 Deutsche Telekom resulted from TDS's sale of its over 80%-owned personal communications services operating subsidiary, Aerial Communications, to VoiceStream Wireless for stock of VoiceStream, which was then acquired by Deutsche Telekom in exchange for Deutsche Telekom stock. 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 ("Rural Cellular") is the result of a consolidation of several cellular partnerships in which TDS subsidiaries held interests in Rural Cellular, and the distribution of Rural Cellular stock in exchange for these interests. The investment in VeriSign is the result of the acquisition by VeriSign of Illuminet, Inc., a telecommunications entity in

which several TDS subsidiaries held interests. TDS has not disposed of the investments primarily because their low tax basis would trigger a substantial taxable gain upon disposal.

Subsidiaries of TDS and U.S. Cellular 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 from May 2007 to August 2008 and, at TDS's and U.S. Cellular's option, may be settled in shares of the respective security or cash. TDS and U.S. Cellular have provided guarantees to the lenders which provide assurance to the lenders that all principal and interest amounts will be paid upon settlement of the contracts by their subsidiaries. If shares are delivered in the settlement of the forward contract, TDS and 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 book basis and the 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 \$1,044.2 million.

The restatements of the financial statements for the years ended December 31, 2003 and 2002 resulted in defaults under certain forward contracts between subsidiaries of TDS and U.S. Cellular and a counterparty. Neither TDS nor U.S. Cellular has failed to make or expects to fail to make any scheduled payment of principal or interest under such forward contracts. TDS and U.S. Cellular and their respective 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.

Capital Expenditures

U.S. Cellular's anticipated capital expenditures for 2004 primarily reflect plans for construction, system expansion, the buildout of certain of its personal communication service licensed areas and additional expenditures related to its plans to migrate to a single digital equipment platform. U.S. Cellular plans to finance its construction program using internally generated cash and short-term financing. U.S. Cellular's estimated capital spending for 2004 is \$610 million to \$630 million. These expenditures primarily address the following needs:

- Expand and enhance U.S. Cellular's coverage in its service areas.
- Provide additional capacity to accommodate increased network usage by current customers.
- Build out certain licensed areas acquired in 2001, 2002 and 2003.
- Addition of digital service capabilities to its systems, including completing the migration toward a single digital equipment platform, Code Division Multiple Access ("CDMA"), from a mixture of CDMA and another digital technology, Time Division Multiple Access.
- Enhance U.S. Cellular's retail store network and office systems.

U.S. Cellular's overlay of existing technologies with CDMA is largely completed, and when the project is fully completed in 2004 it anticipates total expenditures related to the project to be no more than \$300 million. U.S. Cellular will utilize CDMA technology in building out the licenses it has acquired and expects to acquire in the future from AT&T Wireless.

The cost estimates for the CDMA migration project have been revised from the original estimate of \$400 to \$450 million to reflect divestitures of markets, more favorable pricing than expected and additional efficiencies in the conversion process. U.S. Cellular has contracted with multiple infrastructure vendors to provide a substantial portion of the equipment related to the conversion.

U.S. Cellular expects capital expenditures related to the buildout of the licensed areas it acquired in 2001 through 2003, including those in the AT&T Wireless exchange transaction, to be substantial. U.S. Cellular plans to build networks to serve these licensed areas and launch commercial service in these areas over the next several years. Approximately \$100 million of the estimated capital spending for 2004 is allocated to the buildout of certain of these licenses, and U.S. Cellular expects a significant portion of its capital spending over the next few years to be related to the buildout of its wireless licensed areas.

TDS Telecom's estimated capital spending for 2004 approximates \$150 million. The incumbent local telephone companies are expected to spend approximately \$105 million to provide for normal growth and to upgrade plant and equipment to provide enhanced services. The competitive local exchange companies are expected to spend approximately \$45 million primarily to build switching and transmission facilities to meet the needs of a growing customer base. TDS Telecom plans to finance its construction program using primarily internally generated cash.

Acquisitions, Exchanges and Divestitures

TDS assesses its holdings on an ongoing basis in order to maximize the benefits derived from its operations. TDS also reviews attractive opportunities to acquire additional telecommunications companies and wireless spectrum, which it believes will add value to the business.

Acquisition of the Chicago Market

On August 7, 2002, U.S. Cellular completed the acquisition of the Chicago market, for approximately \$618 million, including working capital and other adjustments. U.S. Cellular financed the purchase using its revolving credit facilities, 9% Series A Notes and the Intercompany Note. Net of cash acquired in the transaction and notes issued to the sellers of the Chicago market, U.S. Cellular used cash totaling \$431.9 million for this acquisition.

Other Acquisitions

In 2002, U.S. Cellular, through joint ventures, acquired majority interests in licenses in three wireless markets. The interests U.S. Cellular acquired are 100% owned by the joint ventures, and U.S. Cellular is considered to have the controlling financial interest in these joint ventures for financial reporting purposes. U.S. Cellular

also acquired the remaining minority interests in three other wireless markets in which it previously owned the controlling financial interest for financial reporting purposes, resulting in 100% ownership in those markets. Also in 2002, TDS acquired two incumbent local telephone companies. The aggregate amount paid by TDS to acquire the interests in these transactions was \$99.3 million.

In 2001, U.S. Cellular, on its own behalf and through joint ventures, acquired majority interests in licenses in 27 wireless markets for \$182.3 million in cash, which excluded \$4.1 million of deposits on potential future acquisitions. These deposits were returned to U.S. Cellular in 2002 and no additional interests were acquired related to the deposits. The interests U.S. Cellular acquired through joint ventures are 100% owned by the joint ventures, and U.S. Cellular is considered to have the controlling financial interest in these joint ventures for financial reporting purposes. Also in 2001, TDS acquired 100% of the outstanding common shares of Chorus Communications Group, Ltd. The aggregate purchase price was \$202.8 million in cash, excluding cash acquired.

At December 31, 2003, U.S. Cellular had entered into an agreement to purchase the remaining interests in three licenses in which it currently owns controlling interests for \$34.8 million in cash. This transaction was completed in January 2004.

Exchanges

On August 1, 2003, U.S. Cellular completed the transfer of properties to AT&T Wireless and the assignments to it by AT&T Wireless of a portion of the wireless licenses covered by the agreement with AT&T Wireless. On the initial closing date, U.S. Cellular also received approximately \$34 million in cash and minority interests in six wireless markets in which it currently owns a controlling interest. Also on the initial closing date, U.S. Cellular transferred wireless assets and customers in 10 markets in Florida and Georgia to AT&T Wireless. U.S. Cellular has deferred the assignment and development of 21 licenses it has the right to acquire from AT&T Wireless until later periods. The value of these licenses is recorded as Wireless license rights on the balance sheet. When this transaction is fully consummated, U.S. Cellular will have received wireless licenses in 13 states. The licenses are contiguous to and overlap existing U.S. Cellular properties in the Midwest and Northeast.

Divestitures

On November 26, 2003, U.S. Cellular announced that it had entered into a definitive agreement to sell its southern Texas wireless markets to AT&T Wireless for \$95 million in cash plus a working capital adjustment subject to certain closing provisions. The closing of the sale occurred in February 2004. The U.S. Cellular assets sold to AT&T Wireless include 25 megahertz metropolitan statistical area and rural service area licenses representing 1.3 million population equivalents, approximately 150 cell sites and 76,000 customers. Total revenues from the markets sold totaled \$60.6 million in the year ended December 31, 2003, while operating income totaled \$17.1 million. Operating income does not include shared services costs that have been allocated to the markets from the U.S. Cellular corporate office.

The sale was accounted for in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." The balance sheet at December 31, 2003 reflects assets and liabilities of the wireless properties to be sold as assets and liabilities of operations held for sale. The revenues and expenses of the markets were included in operations until the completion of the sale in February 2004.

The following table summarizes the recorded value of the assets and liabilities of the markets that TDS transferred.

December 31,	2003
(Dollars in thousands)	
Current assets	\$ 5,363
Property, plant and equipment	45,710
Other assets	316
Licenses, net	63,569
Goodwill	7,565
Loss on assets held for sale	(22,000)
Total assets	<u>100,523</u>
Current liabilities	2,189
Non-current liabilities	238
Total liabilities	<u>2,427</u>
Net assets to be transferred	<u>\$ 98,096</u>

Repurchase of Securities and Dividends

As market conditions warrant, TDS and U.S. Cellular may repurchase their Common Shares on the open market or at negotiated prices in private transactions. In 2003, the Board of Directors authorized the repurchase of up to 3.0 million TDS Common Shares through February 2006. U.S. Cellular's Common Share repurchase authorization expired in December 2003. However, U.S. Cellular continues to have authorization to repurchase a limited amount of additional shares on a quarterly basis, primarily for use in employee benefit plans. The repurchase programs are intended to create value for the shareholders. Any repurchases of Common Shares will be funded by internal cash flow, supplemented by short-term borrowings and other sources.

The U.S. Cellular Board of Directors has authorized management to opportunistically repurchase Liquid Yield Option Notes in private transactions. U.S. Cellular may also purchase a limited amount of such Notes in open-market transactions from time to time. U.S. Cellular Liquid Yield Option Notes are convertible, at the option of their holders, at any time prior to maturity, redemption or purchase, into U.S. Cellular Common Shares at a conversion rate of 9.475 U.S. Cellular Common Shares per \$1,000 face value Note. Upon conversion, U.S. Cellular has the option to deliver to holders either U.S. Cellular Common Shares or cash equal to the market value of the U.S. Cellular Common Shares into which the Liquid Yield Option Notes are convertible. U.S. Cellular may redeem the Liquid Yield Option Notes for cash at the issue price plus accrued original issue discount through the date of redemption.

TDS paid total dividends on its Common and Preferred Stock of \$36.2 million in 2003, \$34.4 million in 2002 and \$32.1 million in 2001. TDS has no current plans to change its policy of paying dividends. TDS paid quarterly dividends of \$.155, \$.145 and \$.135 in 2003, 2002 and 2001, respectively.

Contractual Obligations

As of December 31, 2003, the resources required for scheduled repayment of contractual obligations were as follows:

Contractual Obligations	Payments due by Period				
	Total	Less than 1 Year	2 - 3 Years	4 - 5 Years	More than 5 Years
(Dollars in millions)					
Long-term Debt					
Obligations ⁽¹⁾	\$2,018.6	\$ 23.7	\$246.0	\$ 296.3	\$1,452.6
Forward					
Contracts ⁽²⁾	1,754.1	—	—	1,754.1	—
Operating Leases ⁽³⁾	494.1	90.4	148.1	100.2	155.4
Purchase					
Obligations ⁽⁴⁾⁽⁵⁾	272.4	228.4	42.5	1.5	—
	<u>\$4,539.2</u>	<u>\$342.5</u>	<u>\$436.6</u>	<u>\$2,152.1</u>	<u>\$1,608.0</u>

(1) Scheduled debt repayments include long-term debt and the current portion of long-term debt but excludes \$160.3 million of unamortized discount on certain long-term debt instruments. See Note 15 - Long-term Debt.

(2) Schedule of debt repayments excludes \$81.4 million of unamortized discount on zero coupon debt. See Note 15 - Long-term Debt.

(3) Represents the amounts due under noncancellable, long-term operating leases for the periods specified. See Note 23 - Commitments and Contingencies. TDS has no material capital leases.

(4) Includes amounts payable under other agreements to purchase goods or services, including open purchase orders. Also includes obligations due under equipment vendor contracts. The 2004 amounts are also included in estimated capital expenditures for U.S. Cellular. See Note 23 - Commitments and Contingencies.

(5) Includes \$6.9 million for other post-retirement benefits to be paid in 2004. No amounts for other post-retirement benefits are included in periods beyond 2004 as these amounts are discretionary and have not yet been determined.

Off-Balance Sheet Arrangements

TDS has no transactions, agreements or contractual arrangements with unconsolidated entities involving "off-balance sheet arrangements," as defined by SEC rules, that have or are reasonably likely to have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, revenues or expenses.

TDS has certain variable interests in investments in unconsolidated entities where TDS holds a minority interest. The investments in unconsolidated entities total \$214.9 million as of December 31, 2003 and are accounted for using either the equity or cost method. TDS's maximum loss exposure for these variable interests is limited to the aggregate carrying amount of the investments.

Indemnity Agreements

TDS enters into agreements in the normal course of business that provide for indemnification of counterparties. These include certain asset sales and financings with other parties. The term of the indemnification varies by agreement. The events or circumstances that would require TDS to perform under these indemnities are transaction specific, however these agreements may require TDS to indemnify the counterparty for costs and losses incurred from litigation or claims arising from the underlying transaction. TDS is unable to estimate the maximum potential liability for these types of indemnifications as the amounts are dependent on the outcome of future events, the nature and likelihood of which cannot be determined at this time. Historically, TDS has not made any significant indemnification payments under such agreements.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

TDS prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. TDS's significant accounting policies are discussed in detail in Note 1 to the consolidated financial statements.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from estimates under different assumptions or conditions.

Management believes the following reflect its more significant accounting policies and estimates used in the preparation of its consolidated financial statements. TDS's senior management has discussed the development of each of the following accounting policies and estimates and the following disclosures with the audit committee of the TDS Board of Directors.

Investment in Licenses and Goodwill

TDS reported \$1,189.3 million of Wireless license costs and \$887.9 million of goodwill at December 31, 2003 as a result of the acquisition of wireless licenses and markets, and the acquisition of operating telephone companies. In addition, TDS reported \$42.0 million of Wireless license rights related to the licenses that will be received when the AT&T Wireless exchange transaction is fully completed. Included in Assets of Operations Held for Sale was \$63.6 million of license costs and \$7.6 million of goodwill at December 31, 2003.

See Note 5 – Wireless License Costs/Goodwill for a schedule of wireless license costs and goodwill activity in 2003 and 2002.

Wireless licenses and goodwill must be reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. TDS performs the annual impairment review on wireless license investments and goodwill during the second quarter. There can be no assurance that upon review at a later date material impairment charges will not be required.

The intangible asset impairment test consists of comparing the fair value of the intangible asset to the carrying amount of the intangible asset. If the carrying amount exceeds the fair value, an impairment loss is recognized for the difference. The goodwill impairment test is a two-step process. The first step compares the fair value of the reporting unit, as identified in accordance with SFAS No. 142, to its carrying value. If the carrying amount exceeds the fair value, the second step of the test is performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. To calculate the implied fair value of goodwill, an enterprise allocates the fair value of the reporting unit to all of the assets and liabilities of that reporting unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities of the reporting unit is the implied fair value of goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized for that difference.

The fair value of an intangible asset and reporting unit goodwill is the amount at which that asset or reporting unit could be bought or sold in a current transaction between willing parties. Therefore, quoted market prices in active markets are the best evidence of fair value and should be used when available. If quoted market prices are not available, the estimate of fair value is based on the best information available, including prices for similar assets and the use of other valuation techniques. Other valuation techniques include present value analysis, multiples of earnings or revenue or a similar performance measure. The use of these techniques involve assumptions by management about factors that are highly uncertain including future cash flows, the appropriate discount rate, and other inputs. Different assumptions for these inputs or valuation methodologies could create materially different results.

U.S. Cellular tests goodwill for impairment at the level of reporting referred to as a reporting unit. U.S. Cellular has identified seven reporting units pursuant to paragraph 30 of SFAS No. 142. The seven reporting units represent seven geographic groupings of FCC licenses, constituting seven markets or service areas. U.S. Cellular combines its FCC licenses into seven units of accounting for purposes of testing the licenses for impairment pursuant to Emerging