

Financial Resources

U.S. Cellular operates a capital- and marketing-intensive business. In recent years, U.S. Cellular has generated cash from its operations, received cash proceeds from divestitures, used its short-term credit facilities and used long-term debt financing to fund its network construction costs and operating expenses. U.S. Cellular anticipates further increases in wireless customers, revenues, operating expenses, cash flows from operating activities and fixed asset additions in the future. Cash flows may fluctuate from quarter to quarter depending on the seasonality of each of these growth factors.

Year Ended December 31,	2004	2003	2002
(Dollars in thousands)			
Cash flows from (used in):			
Operating activities	\$ 518,408	\$ 621,655	\$ 620,080
Investing activities	(472,706)	(556,114)	(1,099,641)
Financing activities	(14,628)	(70,557)	465,484
Net increase (decrease) in cash and cash equivalents	\$ 31,074	\$ (5,016)	\$ (14,077)

**Cash flows from operating activities** provided \$518.4 million in 2004, \$621.7 million in 2003 and \$620.1 million in 2002. Net income (loss) including adjustments to reconcile net income (loss) to net cash provided by operating activities, excluding changes in assets and liabilities from operations totaled \$527.4 million in 2004, \$578.7 million in 2003 and \$599.9 million in 2002. Included in the adjustments to reconcile net income to net cash provided by operating activities in 2004 is a deduction for the payment of \$68.1 million of accreted interest on the repayment of U.S. Cellular's Liquid Yield Option Notes. Changes in assets and liabilities from operations required \$9.0 million in 2004, and provided \$42.9 million in 2003 and \$20.2 million in 2002, reflecting primarily timing differences in the payment of accounts payable and accrued taxes and the receipt of accounts receivable. Income taxes and interest paid totaled \$54.7 million in 2004, \$22.3 million in 2003 and \$69.9 million in 2002.

**Cash flows from investing activities** primarily represents uses of funds to acquire, construct and upgrade modern high-quality communications networks and facilities as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities have required substantial investments in revenue-enhancing and cost-reducing upgrades of U.S. Cellular's networks. Cash flows used for investing activities primarily represent cash required for capital expenditures, and the acquisition of wireless properties spectrum. Proceeds from merger and divestiture transactions and distributions from unconsolidated entities have provided funds in recent years which have partially offset the cash requirements for investing activities; however, such sources cannot be relied upon to provide continuing or regular sources of financing.

The primary purpose of U.S. Cellular's construction and expansion expenditures is to provide for customer growth, to upgrade service, launch new markets, and to take advantage of service-enhancing and cost-reducing technological developments in order to maintain competitive services.

Cash required for property, plant and equipment and system development expenditures totaled \$655.1 million in 2004, \$632.5 million in 2003 and \$730.6 million in 2002. These expenditures were financed primarily with internally generated cash and borrowings from U.S. Cellular's revolving credit facilities. These expenditures represent the construction of 840, 507 and 437

cell sites in 2004, 2003 and 2002, respectively, as well as other plant additions and costs related to the development of U.S. Cellular's office systems. In 2004, 2003 and 2002, these plant additions included approximately \$13 million, \$58 million and \$215 million, respectively, for the migration to a single digital equipment platform. Other plant additions in all three years included significant amounts related to the replacement of retired assets.

Acquisitions, excluding cash received in all three years, plus notes issued to the sellers of the Chicago market in 2002, required \$40.8 million in 2004, \$5.1 million in 2003 and \$452.9 million in 2002. In 2004, U.S. Cellular purchased certain minority interests in several wireless markets in which it already owned a controlling interest for \$40.8 million in cash. U.S. Cellular purchased two additional minority interests in majority-owned wireless markets in 2003 for \$2.3 million and capitalized costs associated with the AT&T Wireless exchange of \$2.8 million. On August 7, 2002, U.S. Cellular completed the acquisition of the Chicago market. U.S. Cellular paid \$431.9 million in cash, net of cash acquired, and issued \$175 million of 9% Series A notes due in 2032. U.S. Cellular financed the cash portion of the purchase price by using its revolving credit facility and a \$105 million loan from TDS. An additional \$10.5 million of the purchase price was paid in January 2003. In 2002, U.S. Cellular also acquired three personal communications service licenses for \$18.0 million and additional minority interests in majority-owned markets for \$3.1 million.

U.S. Cellular received cash of \$184.9 million from divestitures in 2004. The sale of wireless properties in southern Texas to AT&T Wireless provided \$96.5 million. The sale of wireless properties to ALLTEL provided \$79.8 million (net of \$0.4 million cash divested). U.S. Cellular also received \$8.5 million from the sale of Daytona in 2004 and paid \$0.3 million to buy out the partner in this investment. See "Acquisitions, Exchanges and Divestitures" in the Liquidity and Capital Resources section.

Proceeds from the exchange transaction with AT&T Wireless totaled \$34.0 million in 2003. U.S. Cellular is a limited partner in a designated entity that deposited \$9.0 million with the FCC related to wireless spectrum Auction 58, which took place in early 2005. The designated entity is consolidated by U.S. Cellular for financial reporting purposes. In 2002, U.S. Cellular received cash refunds of \$56.1 million on wireless spectrum Auction 35 deposits.

Cash distributions from wireless entities in which U.S. Cellular has an interest provided \$46.5 million in 2004, \$44.8 million in 2003 and \$28.9 million in 2002.

**Cash flows from financing activities** primarily reflects changes in short-term debt balances, proceeds from the sale of long-term debt and from entering into forward contracts, cash used to repurchase Common Shares and cash used for the repayment of long-term notes and the repurchase and conversion of debt securities.

U.S. Cellular has used short-term debt to finance acquisitions, for general corporate purposes and to repurchase Common Shares. Internally generated funds as well as proceeds from forward contracts and the sale of non-strategic cellular and other investments, from time to time, have been used to reduce short-term debt. In addition, U.S. Cellular 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 2004, U.S. Cellular issued \$330 million of 7.5% senior notes due in 2034 and \$100 million of 6.7% senior notes due in 2033. The net proceeds of these offerings totaled approximately \$412.5 million. Of this amount,

U.S. Cellular used \$163.3 million to redeem its Liquid Yield Option Notes at accreted value. The balance of the net proceeds, together with borrowings under the revolving credit agreement, was used to redeem all \$250 million of 7.25% senior notes. The Liquid Yield Option Notes redemption includes the repayment of principal amount of the original debt of \$95.2 million, presented as an item reducing cash flow from financing activities, and the payment of \$68.1 million of accreted interest, presented as an item reducing cash flow from operating activities. In 2004, U.S. Cellular repaid the \$105 million Intercompany note to TDS, which was financed using U.S. Cellular's revolving credit facility.

In 2003, U.S. Cellular repaid and retired the remaining principal amount of 9% Series A notes with \$40.7 million in cash, which was financed using U.S. Cellular's revolving credit facilities. In 2003, U.S. Cellular received \$432.9 million net proceeds from the issuance of \$444.0 million of 6.7% senior notes due December 2033. These proceeds were used to repay all outstanding borrowings under the revolving credit facility entered into in 1997.

In 2002, U.S. Cellular received \$159.9 million from the monetization of its Vodafone investment through the forward contracts, \$129.8 million net proceeds from the 8.75% senior notes offering and \$105.0 million through the Intercompany Note, all of which were used primarily to finance the Chicago market acquisition. In 2002, U.S. Cellular repurchased \$129.8 million of its 9% Series A notes using the net proceeds from the 8.75% senior notes offering.

Borrowings under revolving credit facilities totaled \$420.0 million in 2004, primarily to repay long-term debt and fund capital expenditures; \$279.3 million in 2003, primarily to fund capital expenditures; and \$542.6 million in 2002, primarily to fund the Chicago market acquisition and capital expenditures. U.S. Cellular repaid \$390.0 million in 2004, \$739.3 million in 2003 and \$346.6 million in 2002 under its revolving credit facilities. The net change in borrowings under revolving credit facilities totaled net borrowings of \$30.0 million in 2004, net repayments of \$460.0 million in 2003 and net borrowings of \$196.0 million in 2002.

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. U.S. Cellular's primary repurchase program expired in December 2003. However, U.S. Cellular has an ongoing authorization to repurchase a limited amount of U.S. Cellular Common Shares on a quarterly basis, primarily for use in employee benefit plans. In 2004, U.S. Cellular repurchased 91,700 U.S. Cellular Common Shares under this authorization for an aggregate purchase price of \$3.9 million, representing an average per-share price of \$42.62 including commissions. No Common Shares were repurchased in 2003 or 2002.

### Liquidity and Capital Resources

U.S. Cellular believes that cash flows from operating activities, existing cash balances and funds available from lines of credit arrangements provide substantial financial flexibility for U.S. Cellular to meet both its short- and long-term needs. U.S. Cellular may have access to public and private capital markets to help meet its long-term financing needs. U.S. Cellular anticipates accessing public and private capital markets and issuing debt and equity securities when and if capital requirements (including acquisitions), 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, some of which may not be in U.S. Cellular's control. If at any time financing is not available on terms acceptable to U.S. Cellular, it 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. U.S. Cellular does not believe that any circumstances that could materially adversely affect its 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 U.S. Cellular's liquidity and capital resources. Uncertainty of access to capital for telecommunications companies, further 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 U.S. Cellular, which could require U.S. Cellular to reduce its construction, development and acquisition programs.

### Revolving Credit Facilities

On December 19, 2003, U.S. Cellular amended its \$325 million revolving credit facility with a group of banks to increase the size of the facility to \$700 million. At December 31, 2004, U.S. Cellular's \$700 million revolving credit facility had \$30.0 million of borrowings and \$0.2 million of letters of credit outstanding against it, leaving \$669.8 million available for use. On December 9, 2004, U.S. Cellular entered into an agreement to amend the terms and conditions of this facility. The primary changes to the terms and conditions are that (i) the maturity date has been extended to December 2009; (ii) the facility fee and certain interest rates payable on loans have been reduced; (iii) a utilization fee has been added for each day that facility usage exceeds 50% of the total facility; and (iv) the material adverse change condition has been removed with respect to drawdowns. Borrowings bear interest at the LIBOR rate plus a contractual spread based on U.S. Cellular's credit rating. At December 31, 2004, the contractual spread was 30 basis points (the one-month LIBOR rate was 2.4% at December 31, 2004). Under certain circumstances, with less than two days' notice of intent to borrow, interest on borrowings are at the prime rate less 50 basis points (the prime rate was 5.25% at December 31, 2004).

The financial covenants associated with U.S. Cellular's revolving credit facility require that U.S. Cellular and subsidiaries maintain certain debt-to-capital and interest coverage ratios. The covenants prescribe certain terms associated with intercompany loans from TDS or TDS subsidiaries to U.S. Cellular or U.S. Cellular subsidiaries.

U.S. Cellular's interest cost on its revolving credit facility would increase if its current credit ratings from either Standard & Poor's or Moody's were lowered. However, the credit 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. Standard & Poor's currently rates U.S. Cellular at A- with a Negative Outlook. Moody's currently rates U.S. Cellular at Baa1, with a Negative Outlook.

The maturity date of U.S. Cellular's credit facility would accelerate in the event of a change in control.