

Management's Discussion and Analysis of Results of Operations and Financial Condition

The following table is a summary of the components of cash flows from operating activities.

Year Ended December 31,	2003 (as restated)	2002 (as restated)	2001
(Dollars in thousands)			
Net Income (loss)	\$ 42,660	\$ (26,945)	\$173,876
Noncash items included in income from continuing operations	536,052	626,882	331,165
Income from continuing operations excluding noncash items	578,712	599,937	505,041
Changes in assets and liabilities from operations	42,943	20,143	(64,693)
	\$621,655	\$620,080	\$440,348

Cash flows from investing activities required \$556.1 million in 2003, \$1,099.6 million in 2002 and \$671.8 million in 2001. Cash required for property, plant and equipment and system development expenditures totaled \$632.5 million in 2003, \$730.6 million in 2002 and \$503.3 million in 2001. 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 507, 437 and 377 cell sites in 2003, 2002 and 2001, respectively, as well as other plant additions and costs related to the development of U.S. Cellular's office systems. In 2003 and 2002, these plant additions included approximately \$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 and the changeout of analog equipment for digital equipment.

Acquisitions, excluding cash received in all three years, plus notes issued to the sellers of USCOC of Chicago in 2002, required \$5.1 million in 2003, \$452.9 million in 2002 and \$186.3 million in 2001. Proceeds from the exchange transaction with AT&T Wireless totaled \$34.0 million in 2003. Cash distributions from wireless entities in which U.S. Cellular has an interest provided \$44.8 million in 2003, \$28.9 million in 2002 and \$14.8 million in 2001. In 2002, U.S. Cellular was refunded \$56.1 million of its deposit with the FCC related to the January 2001 FCC spectrum auction.

Cash flows from financing activities required \$70.6 million in 2003 and provided \$465.5 million in 2002 and \$136.1 million in 2001. In 2003, 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, 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 USCOC of Chicago 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. U.S. Cellular repaid \$739.3 million in 2003, \$346.6 million in 2002 and \$22.5 million in 2001 under its revolving credit facilities. Borrowings under the

revolving credit facilities totaled \$279.3 million in 2003, primarily to fund capital expenditures; \$542.6 million in 2002, primarily to fund the USCOC of Chicago acquisition and capital expenditures; and \$231.5 million in 2001, primarily to fund capital expenditures.

In 2001, U.S. Cellular paid \$32.0 million in cash and issued 644,000 USM Common Shares to satisfy the retirement of \$126.2 million face value (\$55.1 million carrying value) of Liquid Yield Option Notes by the holders.

Also, in 2001, U.S. Cellular paid \$40.9 million for the repurchase of 643,000 of its Common Shares, including \$11.0 million paid in January 2001 related to December 2000 Common Share repurchases. See "Repurchase of Securities" for a description of U.S. Cellular's Common Share repurchase programs. An additional 157,000 Common Shares were purchased in 2001 pursuant to a previously authorized program to repurchase a limited amount of shares on a quarterly basis, primarily for use in employee benefit plans.

ACQUISITIONS, EXCHANGES AND DIVESTITURES

U.S. Cellular assesses its wireless holdings on an ongoing basis in order to maximize the benefits derived from its operating markets. U.S. Cellular also reviews attractive opportunities for the acquisition of additional wireless spectrum.

Acquisitions

Acquisition of USCOC of Chicago

On August 7, 2002, U.S. Cellular completed the acquisition of USCOC of Chicago, 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 USCOC of Chicago, U.S. Cellular used cash totaling \$431.9 million for the acquisition of USCOC of Chicago.

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. The aggregate amount paid by U.S. Cellular to acquire the interests in these transactions was \$21.1 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.

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At December 31, 2003, U.S. Cellular had entered into an agreement to purchase the remaining equity 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 \$34.0 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 License rights on the balance sheet. When this transaction is fully consummated, U.S. Cellular will have received wireless licenses in 13 states contiguous to and that overlap existing 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 properties to AT&T Wireless for \$95 million in cash plus a working capital adjustment, subject to certain closing provisions. The closing of the transaction occurred in February 2004. The U.S. Cellular assets sold to AT&T Wireless include wireless properties and 76,000 customers. Service revenues from the markets sold totaled \$60.6 million for 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 U.S. Cellular transferred.

December 31,	2003
(Dollars in thousands)	
Current assets	\$ 5,363
Property, plant and equipment, net	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>

In 2002 and 2001, U.S. Cellular had no material divestitures of wireless interests.

FCC Auction 35 Transactions

U.S. Cellular is a limited partner in a joint venture that was a successful bidder for 17 licenses in 13 markets in the January 2001 FCC spectrum auction ("Auction 35"). In 2001, the joint venture acquired five of such licenses in four markets for a total of \$4.1 million and at December 31, 2001, had deposits with the FCC totaling \$56.1 million for the remaining licenses.

In May 2002, the FCC refunded 85% of the deposits, or \$47.6 million. On September 12, 2002, the FCC issued a public notice permitting the winning bidders in Auction 35 to dismiss some or all of their applications. In November 2002, the joint venture notified the FCC of its election to opt out of its applications for the remaining 12 license applications and on December 9, 2002, the FCC issued a public notice dismissing the applications. On December 20, 2002, the joint venture received the remaining \$8.5 million of deposits paid to the FCC.

LIQUIDITY AND CAPITAL RESOURCES

Management believes that U.S. Cellular's cash flows from operations, 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 also may have access to public and private capital markets to help meet its long-term financing needs. U.S. Cellular anticipates issuing debt and equity securities only when capital requirements (including acquisitions), financial market conditions and other factors warrant.

However, the availability of 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

In December 2003, U.S. Cellular increased the capacity of its bank revolving credit facility originally entered into in 2002 to \$700 million from \$325 million. This facility expires in June 2007. Borrowings under this facility accrue interest at the London InterBank Offered Rate ("LIBOR") plus 55 basis points (for a rate of 1.67% based on the one-month