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MORGAN STANLEY 8TH ANNUAL GLOBAL MEDIA & COMMUNICATIONS
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Good morning. It's a pleasure to meet with you today. I'd like to thank Simon Flannery and his team for inviting us and giving us the opportunity to talk with you about TDS and our wholly owned wireline subsidiary, TDS Telecom. With me today is Mark Steinkrauss, vice president of Corporate Relations for TDS who manages investor relations for us as well as for U.S. Cellular, our 82% owned wireless subsidiary. Jack Rooney, president of U.S. Cellular, and Ken Meyers, U.S. Cellular's EVP and CFO, are also here at the conference today. I hope you had the chance to attend Jack's presentation on U.S. Cellular.

Before proceeding, I'd like to remind everyone that we will be discussing forward-looking information today, so please review the Safe Harbor provisions in your handouts. These provisions and the handouts are posted to our web site at www.teldta.com. The handouts are intended as a supplemental takeaway and do not parallel the order of my remarks.

In the interest of time, I will focus my remarks on four areas: our strategy at TDS Telecom; our emphasis on profitable growth; our status in regard to capital spending; and the financial strength of the overall company.

STRATEGY

I'll start with our strategy at TDS Telecom, which consists of three major components. First, we provide outstanding service. Excellent customer satisfaction is what differentiates us from the competition. It supports the other two prongs of our strategy, the second of which is protecting and growing our markets, which we do in a very disciplined manner in both the ILEC and CLEC. In the case of the ILEC, we concentrate on our existing markets. For the CLEC, we work to strengthen market share in our existing markets and gradually build outward. The third element of our strategy is to develop and market new and enhanced services. For instance, we are looking carefully at a bundled wireline/wireless offering in selected markets at the CLEC. And we are developing data services, such as VPN – or virtual private network, web hosting and data network management.

PROFITABLE GROWTH

Moving now to our emphasis on profitable growth. It's been a difficult period for the telecom industry over the last two years with the effects of a weak economy and the repercussions of troubles in parts of the industry. However, we are still seeing reasonable levels of growth in our rural ILEC, and continued strong growth in our CLEC operations. We're bolstering growth in both our ILEC and CLEC operations with aggressive sales of DSL, long-distance and vertical services.

For the first half of the year, the ILEC grew revenues 5% compared to the same period in 2002, and we added 6,600 access line equivalents. We have, however, lost 2,800 physical access lines during the same period, due primarily to DSL displacement of second lines and Centrex line losses.

For the CLEC, which is our primary wireline growth engine, we've increased revenues 32% for the half of the year, and added 32,200 access line equivalents. In line with our strategy, we continue to seek deeper penetration in our current CLEC markets.

At our ILEC, we are enjoying healthy profit margin levels, particularly given the growth of our lower-margin DSL and long-distance services. At the CLEC, profitability continues to improve as we gain scale.

One of the ways we're fueling sustainable revenue growth at both the ILEC and CLEC is by offering new and enhanced services. At the ILEC, we've been very successful with our DSL offerings. DSL, as you know, is a lower-margin business at this point in its product life cycle. However, it's also a great growth product for us -- 50% of those who sign on for DSL with us are new data customers. We're also doing very well with our long-distance and bundled service offerings.

In terms of our CLEC, we are seeing excellent growth there as well, and we're building our existing markets nicely. Operating results have been quite positive, and we revised our operating cash flow guidance up at the end of the second quarter. We now expect operating cash flow to range from breakeven to positive $10 million, a very meaningful improvement.

CAPEX

I'll now discuss capital spending. Our current guidance at the ILEC for capital spending is $130 million for 2003. We currently believe that the capital intensity of the ILEC business going forward will be flat to marginally down.

We're also well positioned on cap ex at the CLEC. We announced a slight downward revision to projected capex in our second-quarter press release, bringing it down from $40 million to $35 million for the year. We believe that capital spending for existing CLEC operations has peaked, and we therefore expect the capital intensity going forward will be flat to marginally down.

FINANCIAL STRENGTH

The last point I'd like to present to you before I take your questions is that TDS is a financially strong company. We pay close attention to this and we are somewhat more conservative than most telecom companies. This approach has served us well, especially over the last three turbulent years. Our credit rating is investment grade, and we are committed to maintaining a strong investment-grade rating for both TDS and USC going forward.

As you know, as of June 30, we had over $1 billion in cash on hand. We announced in August that we would use part of that amount to redeem $300 million, or all of our outstanding TOPrS, which are essentially debt instruments. We have also redeemed $70 million of various Medium-Term Notes that carried high interest coupons. Details of these transactions are available in the second-quarter conference call, archived on our web site.

Therefore, we are using some of our cash to de-lever our balance sheet. Doing so works toward maintaining our solid investment-grade rating and improves our ability to access the capital markets in the future at reasonable costs.

We also have a stock repurchase program in place at TDS, which we have indicated we may complete this year, provided that market conditions support doing so. So far we have repurchased 1.4 million of the 3 million shares authorized for repurchase.

We do want to keep enough cash on hand to maintain significant liquidity in these times of unsettled capital markets. We would estimate that this amount

approximates $250 million. We can, of course, adjust this liquidity balance based on conditions in the capital markets.

In terms of future acquisitions, at this point we do not foresee any significant acquisitions in the near future, either at U.S. Cellular or TDS Telecom. U.S. Cellular has been involved with several large transactions lately, including the acquisition of the Chicago market last year and the recent exchange of wireless assets with AT&T Wireless, both of which fit very well with U.S. Cellular's strategy of improving its competitive position. However, if an attractive opportunity were to arise that allowed us to fill in a hole in the footprint at U.S. Cellular, we would be willing to look at it.

As for our wireline operations, again, we do not foresee any significant acquisitions unless we see more reasonable valuations for ILEC properties.

I'd like to conclude by saying that we believe TDS is well positioned, with our wireless and wireline strategies, our focus on profitable growth, our careful management of capital spending, and our disciplined financial approach. I would now be happy to take your questions.