

AT&T WIRELESS SERVICES INC

Form 10-Q

May 12, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File Number 1-16567

AT&T WIRELESS SERVICES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State of Incorporation)

91-1379052
(IRS Employer Identification No.)

7277 164TH AVENUE NE, BUILDING 1
REDMOND, WASHINGTON 98052
(Address of principal executive offices)

(425) 580-6000
(Registrant's telephone number)

Indicated by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2):

Yes No

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As of April 30, 2003, 2,711,881,292 shares of the registrant's Common Stock were outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AT&T WIRELESS SERVICES, INC.
AND SUBSIDIARIESCONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2003	2002
REVENUE		
Services	\$ 3,743	\$ 3,355
Equipment	205	256
	<u>3,948</u>	<u>3,611</u>
OPERATING EXPENSES		
Costs of services (excluding depreciation of \$576 and \$490 included below)	1,114	1,048
Costs of equipment sales	469	553
Selling, general, and administrative	1,255	1,190
Depreciation and amortization	735	642
	<u>3,573</u>	<u>3,433</u>
OPERATING INCOME	375	178
Other expense	30	31
Interest expense	184	115
	<u>161</u>	<u>32</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND NET EQUITY EARNINGS (LOSSES) FROM INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES	161	32
Provision for income taxes	46	12
Net equity earnings (losses) from investments in unconsolidated subsidiaries, net of tax	27	(42)
	<u>142</u>	<u>(22)</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS	142	(22)
INCOME FROM DISCONTINUED OPERATIONS (net of tax provision of \$8)	12	12
	<u>142</u>	<u>(10)</u>
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	142	(10)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (net of tax benefit of \$103)	(166)	(166)
	<u>142</u>	<u>(176)</u>
NET INCOME (LOSS)	142	(176)
Accretion of mandatorily redeemable preferred stock	7	2
	<u>135</u>	<u>(178)</u>
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ 135	\$ (178)
INCOME (LOSS) PER BASIC AND DILUTED SHARE:		
Income (loss) income from continuing operations available to common shareholders	\$ 0.05	\$ (0.01)

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Income from discontinued operations		
Cumulative effect of change in accounting principle		(0.06)
	<u> </u>	<u> </u>
Net income (loss) available to common shareholders	\$ 0.05	\$ (0.07)
	<u> </u>	<u> </u>
WEIGHTED AVERAGE SHARES USED TO COMPUTE INCOME (LOSS) PER SHARE:		
Basic	2,711	2,618
Diluted	2,712	2,618

The accompanying notes are an integral part of these consolidated condensed financial statements.

Table of ContentsAT&T WIRELESS SERVICES, INC.
AND SUBSIDIARIESCONSOLIDATED CONDENSED BALANCE SHEETS
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	AT MARCH 31, 2003	AT DECEMBER 31, 2002
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 3,563	\$ 2,353
Accounts receivable, less allowances of \$238 and \$240	2,020	2,215
Inventories	247	325
Income tax receivable		56
Prepaid expenses and other current assets	396	332
	<u> </u>	<u> </u>
TOTAL CURRENT ASSETS	6,226	5,281
Property, plant, and equipment, net of accumulated depreciation and amortization of \$8,490 and \$7,810	15,979	16,263
Licensing costs	13,947	13,959
Investments in and advances to unconsolidated subsidiaries	2,270	2,225
Goodwill	7,199	7,199
Other assets, net of accumulated amortization of \$282 and \$251	606	879
	<u> </u>	<u> </u>
TOTAL ASSETS	\$46,227	\$ 45,806
	<u> </u>	<u> </u>
LIABILITIES		
Accounts payable	\$ 612	\$ 780
Payroll and benefit-related liabilities	332	465
Advertising and promotion accruals	222	173
Business tax accruals	365	375
Other current liabilities	1,235	1,300
	<u> </u>	<u> </u>
TOTAL CURRENT LIABILITIES	2,766	3,093
Long-term debt	11,077	11,057
Deferred income taxes	3,901	3,788
Other long-term liabilities	321	308
	<u> </u>	<u> </u>
TOTAL LIABILITIES	18,065	18,246
COMMITMENTS AND CONTINGENCIES (NOTES (i) AND (j))		
MINORITY INTEREST	45	48
MANDATORILY REDEEMABLE PREFERRED STOCK, \$0.01 par value, 1,000 shares authorized, .233 shares issued and outstanding (liquidation values of \$277 and \$273)	158	151
MANDATORILY REDEEMABLE COMMON STOCK, \$0.01 par value, 406 shares issued and outstanding (redemption values of \$10,903 and \$10,748)	7,664	7,664
SHAREHOLDERS EQUITY		
Common stock, \$0.01 par value, 10,000 shares authorized, 2,305 and 2,303 shares issued and outstanding	23	23
Additional paid-in capital	23,670	23,667
Receivable from former parent, AT&T	(25)	(461)
Accumulated deficit	(3,332)	(3,474)
Accumulated other comprehensive loss	(41)	(58)
	<u> </u>	<u> </u>
TOTAL SHAREHOLDERS EQUITY	20,295	19,697
	<u> </u>	<u> </u>

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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$46,227	\$ 45,806
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AND SUBSIDIARIESCONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(IN MILLIONS)
(UNAUDITED)

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Receivable From Former Parent, AT&T	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Share- Holders Equity
Balance at December 31, 2002	2,303	\$ 23	\$23,667	\$ (461)	\$ (3,474)	\$ (58)	\$19,697
Net income					142		142
Proceeds from AT&T Wireless Services common stock issued for employee plans and other	2		10				10
Cash received from former parent, AT&T				436			436
Accretion of mandatorily redeemable preferred stock			(7)				(7)
Other comprehensive income						17	17
Balance at March 31, 2003	2,305	\$ 23	\$23,670	\$ (25)	\$ (3,332)	\$ (41)	\$20,295
Balance at December 31, 2001	2,125	\$ 21	\$20,515	\$	\$ (1,150)	\$ (105)	\$19,281
Net loss					(176)		(176)
Issuance of AT&T Wireless Services common stock and stock options for TeleCorp PCS, Inc. acquisition	146	2	2,280				2,282
Proceeds from AT&T Wireless Services common stock issued to DoCoMo	27		382				382
Proceeds from AT&T Wireless Services common stock issued for employee plans and other	1		20				20
Accretion of mandatorily redeemable preferred stock			(2)				(2)
Other comprehensive income						13	13
Balance at March 31, 2002	2,299	\$ 23	\$23,195	\$	\$ (1,326)	\$ (92)	\$21,800

FOR THE THREE
MONTHS
ENDED MARCH 31,

SUMMARY OF TOTAL COMPREHENSIVE INCOME (LOSS):

	2003	2002
Net income (loss)	\$ 142	\$ (176)
Net revaluation of investments (net of tax of \$13)		20
Net revaluation of financial instruments (net of taxes of \$0 and \$2)	(33)	4
Net foreign currency translation adjustments (net of taxes of \$0 and \$(7))	50	(11)
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ 159	\$ (163)

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AND SUBSIDIARIESCONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(IN MILLIONS)
(UNAUDITED)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2003	2002
OPERATING ACTIVITIES		
Net income (loss)	\$ 142	\$ (176)
Deduct: Income from discontinued operations		12
	<u>142</u>	<u>(188)</u>
Net income (loss), excluding discontinued operations		
Adjustments to reconcile net income (loss), excluding discontinued operations, to net cash provided by operating activities of continuing operations:		
Cumulative effect of change in accounting principle, net of tax		166
Loss on early extinguishment of debt		10
Loss from impairments of cost method unconsolidated subsidiaries		57
Net losses on sale/exchange of assets, businesses, and investments in unconsolidated subsidiaries	35	
Depreciation and amortization	735	642
Amortization of debt premium/discount, interest accretion, and deferred financing fees	19	8
Deferred income taxes	82	(35)
Net equity (earnings) losses from investments in unconsolidated subsidiaries	(27)	44
Provision for uncollectible receivables	137	159
Proceeds received from termination of interest rate swap agreements	245	
Decrease (increase) in accounts receivable	59	(53)
Decrease in inventories	78	43
Decrease in accounts payable	(88)	(210)
Net change in other operating assets and liabilities	(142)	(530)
	<u>1,275</u>	<u>113</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS		
INVESTING ACTIVITIES		
Capital expenditures and other additions	(501)	(1,031)
Net acquisitions of licenses		(35)
Distributions and sales of unconsolidated subsidiaries	5	3
Contributions, advances, and purchases of unconsolidated subsidiaries	(2)	(383)
Acquisitions of consolidated businesses, including cash acquired	(5)	230
Issuance of long-term note receivable to unconsolidated subsidiary		(100)
	<u>(503)</u>	<u>(1,316)</u>
NET CASH USED IN INVESTING ACTIVITIES OF CONTINUING OPERATIONS		
FINANCING ACTIVITIES		
Repayment of debt due to others		(978)
Proceeds from AT&T Wireless Services common stock issued	7	405
Cash received from former parent, AT&T	436	
Other financing activities, net	(5)	
	<u>438</u>	<u>(573)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES OF CONTINUING OPERATIONS		
NET CASH PROVIDED BY DISCONTINUED OPERATIONS		<u>8</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>1,210</u>	<u>(1,768)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>2,353</u>	<u>3,352</u>

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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$3,563	\$ 1,584
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AT&T WIRELESS SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND AS OTHERWISE NOTED)
(UNAUDITED)

(a) BASIS OF PRESENTATION

AT&T Wireless Services, Inc. (AT&T Wireless Services) is a provider of wireless voice and data services and products primarily in the U.S., which presently operates in a single business segment. AT&T Wireless Services also holds equity interests in various U.S. and international wireless communications ventures and partnerships.

The consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements and do not include all annual disclosures required by GAAP. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Form 10-K for the fiscal year ended December 31, 2002. These consolidated condensed financial statements, in the opinion of management, include all adjustments necessary for a fair statement of the consolidated results of operations, financial position, and cash flows for each period presented. The results for the three months ended March 31, 2003 are not necessarily indicative of results to be expected fo