

AT&T WIRELESS SERVICES INC

Form DEFA14A

May 19, 2004

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only
(as Permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

AT&T WIRELESS SERVICES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

AT&T Wireless, Inc. and Subsidiaries
Reconciliations of Non-GAAP Financial Measures

Free Cash Flow

Free cash flow, as we have defined it, is calculated as the cash generated from our operating activities less cash payments for capital expenditures. We believe free cash flow to be relevant and useful information to our investors as this measure is used by our management in evaluating our liquidity and the cash generated by our consolidated operating businesses. Our definition of free cash flow does not take into consideration cash generated in the sale of or used to purchase license spectrum, cash used to acquire other businesses, or cash generated or used related to our unconsolidated investments. Additionally, our definition of free cash flow does not reflect cash used to repurchase or fund debt obligations. Free cash flow reflects cash available for financing activities, to strengthen our balance sheet, or cash available for strategic investments, including spectrum acquisitions, acquisitions of businesses, or investments in joint ventures and other unconsolidated subsidiaries. Free cash flow should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with accounting principles generally accepted in the United States of America. Free cash flow, as we have defined it, may not be comparable to similarly titled measures reported by other companies.

Free Cash Flow	For the Three months ended	
<i>(\$ in millions)</i>	March 31, 2004	March 31, 2003
Net cash provided by operating activities of continuing operations	\$ 554	\$ 1,275
Less: Capital expenditures and other additions	(848)	(501)
	\$ (294)	\$ 774
Free cash flow	\$ (294)	\$ 774

Free Cash Flow	For the Years ended			
<i>(\$ in millions)</i>	December 31, 2003	December 31, 2002	December 31, 2001	December 31, 2000
Net cash provided by operating activities of continuing operations	\$ 4,559	\$ 2,975	\$ 2,734	\$ 1,786
Less: Capital expenditures and other additions	(2,774)	(5,302)	(5,205)	(3,601)
	\$ 1,785	\$ (2,327)	\$ (2,471)	\$ (1,815)
Free cash flow	\$ 1,785	\$ (2,327)	\$ (2,471)	\$ (1,815)

OIBDA & OIBDA Margin

OIBDA is defined as operating income (loss) before depreciation and amortization. OIBDA margin is calculated as OIBDA divided by services revenue. OIBDA is a non-generally accepted accounting principles (GAAP) financial measure, and differs from operating income (loss), as calculated in accordance with GAAP in that it excludes depreciation and amortization, and differs from net income (loss) as calculated in accordance with GAAP in that it excludes (i) depreciation and amortization, (ii) other income (expense), (iii) interest expense, (iv) provision (benefit) for income taxes, (v) net equity earnings (losses) from investments in unconsolidated subsidiaries, (vi) income (loss) from discontinued operations, and (vii) cumulative effect of change in accounting principle. We believe OIBDA

and OIBDA margin to be relevant and useful information to our investors as these measures are an integral part of our internal management reporting and planning process and are the primary measures used by our management to evaluate the operating performance of our consolidated operations. They are used by management as a measurement of our success in acquiring, retaining, and servicing customers because we believe these measures reflect our ability to generate and grow subscriber revenues while providing a high level of customer service in a cost-effective manner. Management also uses these measures as a method of comparing our performance with many of our competitors. The components of OIBDA include the key revenue and expense items for which our operating managers are responsible and upon which we evaluate their performance. Additionally, our \$1.25 billion credit facility (under which no amounts are currently outstanding) requires us to maintain certain financial ratios, including a specified ratio of net-debt-to-operating income before depreciation and amortization expenses and impairment charges. Lastly, we use OIBDA for planning purposes, and in presentations to our board of directors, and we use multiples of current or projected OIBDA in our discounted cash flow models to determine the value of our licensing costs and our overall enterprise valuation.

OIBDA excludes other income (expense) and net equity earnings (losses) from investments in our unconsolidated subsidiaries, as these do not reflect the operating results of our subscriber base and our national footprint that we utilize to obtain and service our subscribers. Net equity earnings (losses) from investments in unconsolidated subsidiaries represent our proportionate share of the net income (loss) of equity investments in which we exercise significant influence, but do not have control. As we do not control these entities, our management excludes these results when evaluating the performance of our primary operations. Although excluded, net equity earnings (losses) from investments in unconsolidated subsidiaries may include results that are material to our overall net income (loss). We may record impairment charges in the future if there are further declines in the fair values of our investments, which we deem to be other than temporary. OIBDA also excludes interest expense and the provision (benefit) for income taxes. Excluding these items eliminates the expenses associated with our capitalization and tax structures. Finally, OIBDA excludes depreciation and amortization expenses, in order to eliminate the impact of capital investments, which management believes is better evaluated through its effect on Free Cash Flow.

We believe OIBDA as a percentage of services revenue to be a more relevant measure of our operating margin than OIBDA as a percentage of total revenue. We generally subsidize a portion of our handset sales, all of which is recognized in the period in which we sell the handset. This results in a disproportionate impact on our margin in that period. Management views this equipment subsidy as a cost to acquire or retain a subscriber, which is recovered through the ongoing services revenue that is generated by the subscriber. We also use services revenue to calculate margin to facilitate comparison, both internally and externally, with our competitors, as they calculate their margins using services revenue as well.

There are material limitations to using measures such as OIBDA and OIBDA margin, including the difficulty associated with comparing these performance measures as we calculate them to similar performance measures presented by other companies, and the fact that these performance measures do not take into account certain significant items, including depreciation and amortization, interest, and tax expense, and net equity earnings (losses) from investments in unconsolidated subsidiaries that directly affect our net income or loss. Management compensates for these limitations by carefully analyzing how our competitors present performance measures that are similar in nature to OIBDA as we present it, and considering the economic effect of the excluded expense items independently as well as in connection with its analysis of net income (loss) as calculated in accordance with GAAP. OIBDA and OIBDA margin should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with accounting principles generally accepted in the United States of America. OIBDA and OIBDA margin, as we have defined them, may not be comparable to similarly titled measures reported by other companies.

OIBDA & OIBDA Margin

<i>(\$ in millions)</i>	For the three months ended March 31, 2004	As a % of Services Revenue	For the three months ended March 31, 2003	As a % of Services Revenue
OIBDA	\$ 966	25.8%	\$ 1,110	29.7%
Depreciation and amortization	(887)	-23.7%	(735)	-19.7%
Other (expense) income	42	1.1%	(30)	-0.8%
Interest expense	(196)	-5.2%	(184)	-4.9%
Benefit (provision) for income taxes	34	0.9%	(46)	-1.2%
Net equity earnings (losses) from investments in unconsolidated subsidiaries	(17)	-0.4%	27	0.7%
Net (loss) income	<u>\$ (58)</u>	-1.5%	<u>\$ 142</u>	3.8%

<i>(\$ in millions)</i>	For the year ended, December 31, 2003	As a % of Services Revenue	For the year ended, December 31, 2002	As a % of Services Revenue
OIBDA	\$ 4,394	28.1%	\$ 2,493	17.2%
Depreciation and amortization	(3,181)	-20.3%	(2,751)	-19.0%
Other (expense) income	32	0.2%	(123)	-0.8%
Interest expense	(789)	-5.0%	(669)	-4.6%
Benefit (provision) for income taxes	(112)	-0.8%	(55)	-0.4%
Net equity earnings (losses) from investments in unconsolidated subsidiaries	98	0.6%	(1,100)	-7.6%
Gain on disposal of discontinued business			47	0.3%
Cumulative effect of change in accounting principle			(166)	-1.1%
Net (loss) income	<u>\$ 442</u>	2.8%	<u>\$ (2,324)</u>	-16.0%

